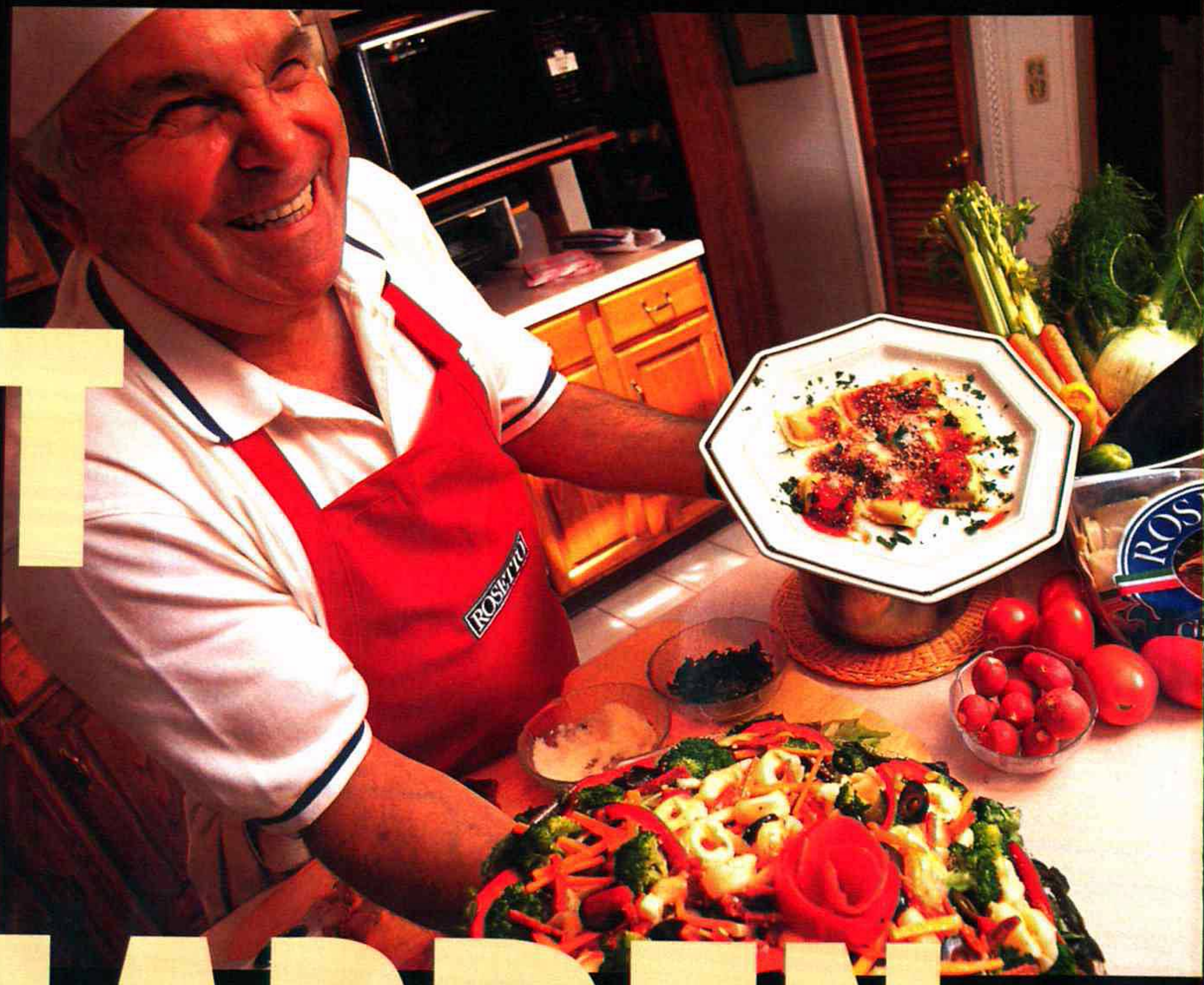
MAKING IT HAPPEN



H.J. HEINZ COMPANY ANNUAL REPORT 1998

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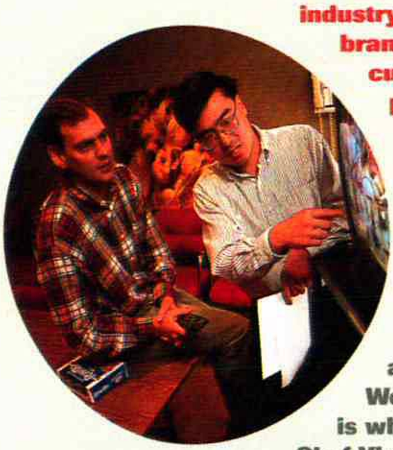
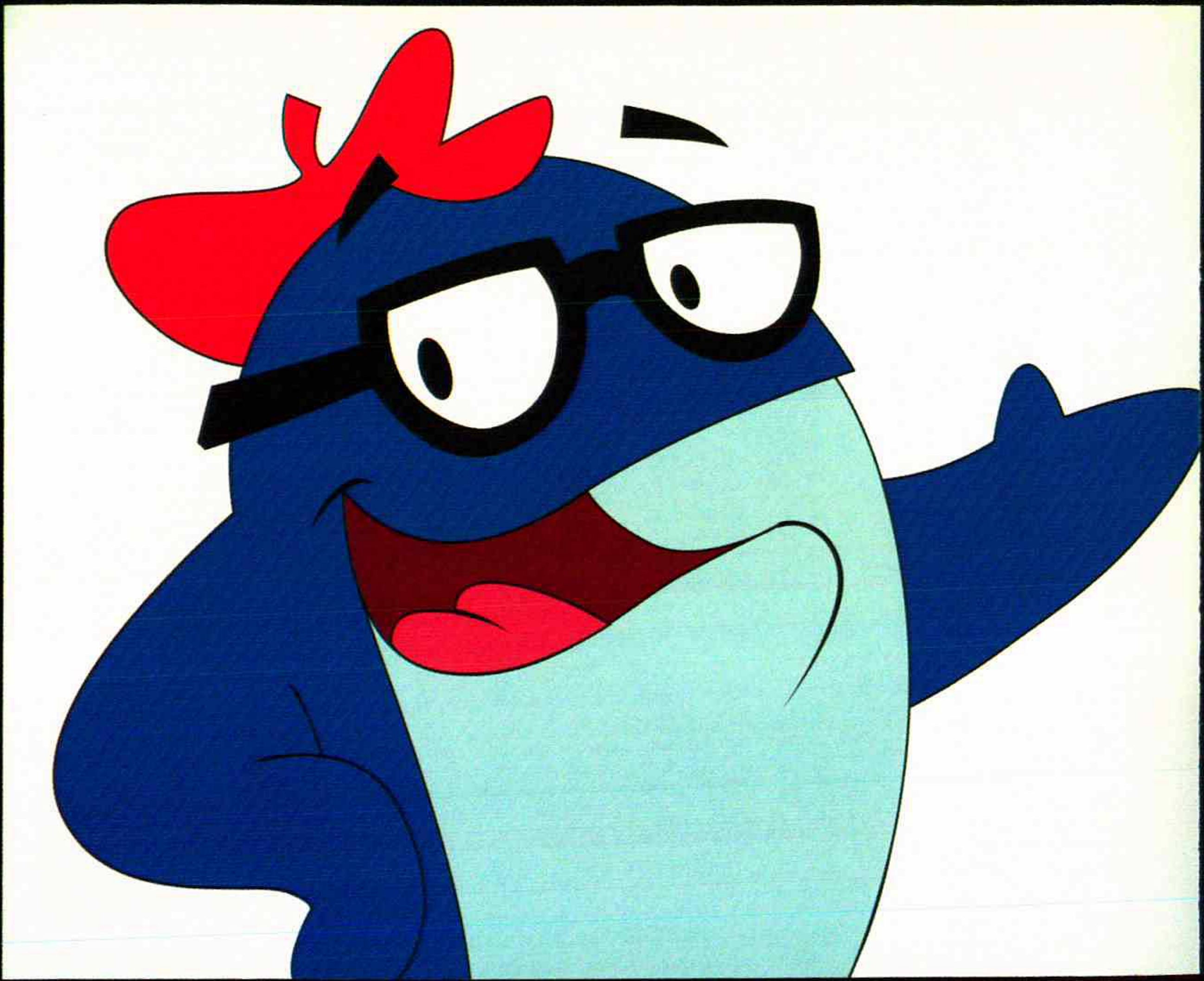


Entitled "Making It Happen," this year's annual report salutes the powerful "can-do" spirit that inspires Heinz employees to action around the world. While great ideas abound in the food industry, great brands are very rare. The brands of Heinz succeed because of a culture that values teamwork and performance, and motivates Heinz employees to translate their creative ideas into vivid realities. The results are products of uncommon quality and marketing with enduring impact. "When consumers taste Rosetto," observes Andrew Ip (inset, right), Ore-Ida marketing analyst, "they're always delighted. We have the very best quality." That is why Rosetto's roving "pasta pro," Chef Vin Rinaldi (cover photo), crisscrosses the U.S., whipping up lunch for magazine editors or tasty samples for supermarket shoppers. "His appearances always generate excitement in local markets, increase sales and raise our visibility," adds Jay Theiler (inset, left), pasta category manager. Chef Rinaldi is one reason Rosetto remains America's top-selling frozen pasta.


Mickey
HIPO




Heinz
PVT.PICKLE

HIGHLIGHTS

H.J. Heinz Company and Subsidiaries

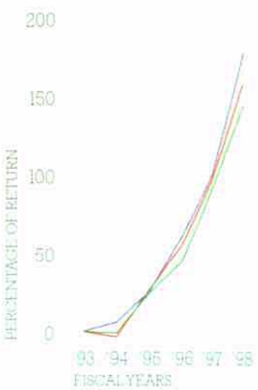
(Dollars in thousands, except per share data)	**1998** **(52 weeks)**	1997 (52 weeks)	1996 (52 weeks)
Sales	**$9,209,284**	$9,357,007	$9,112,265
Operating income	**1,520,330**	756,271	1,287,572
Net income	**801,566**	301,871	659,319
Per common share amounts:			
Net income – diluted	**$ 2.15**	$ 0.81	$ 1.75
Dividends	**1.23½**	1.13½	1.03½
Book value	**6.10**	6.64	7.34
Capital expenditures	**$ 373,754**	$ 377,457	$ 334,787
Depreciation and amortization expense	**313,622**	340,490	343,809
Property, plant and equipment, net	**2,394,662**	2,479,220	2,616,828
Cash, cash equivalents and short-term investments	**$ 99,398**	$ 188,437	$ 108,380
Operating working capital	**762,474**	1,107,696	1,305,359
Total debt	**3,107,903**	3,447,435	3,363,828
Shareholders' equity	**2,216,516**	2,440,421	2,706,757
Average common shares outstanding – diluted	**372,952,851**	374,043,705	377,606,606
Average common shares outstanding – basic	**365,982,290**	367,470,850	368,799,645
Current ratio	**1.24**	1.05	1.12
Debt/invested capital	**58.4%**	58.6%	55.4%
Pretax return on average invested capital	**27.0%**	12.6%	21.8%
Return on average shareholders' equity	**34.4%**	11.7%	25.5%

The 1998 results include non-recurring costs of $84.1 million pretax ($0.14 per share) related to the implementation of Project Millennia, offset by the gain on the sale of the Ore-Ida frozen foodservice business, $96.6 million pretax ($0.14 per share). The 1997 results include a pretax charge for restructuring and related costs of $647.2 million ($1.09 per share), offset by capital gains of $85.3 million ($0.14 per share) from the sale of non-strategic assets in New Zealand and the U.K.

TOTAL SHAREHOLDER RETURN

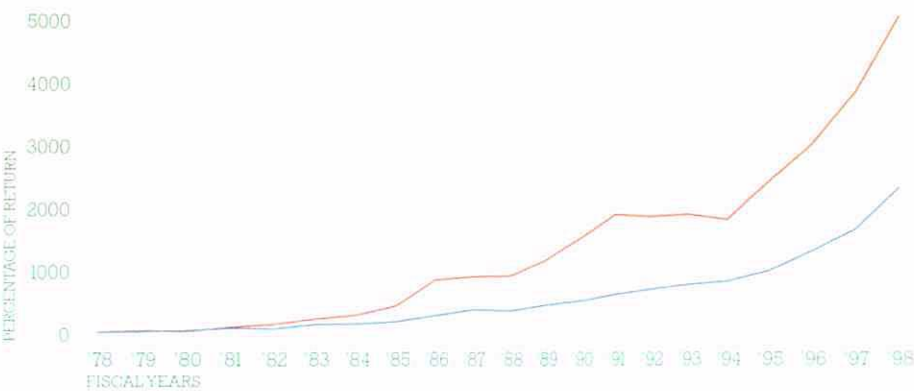
Represents share price appreciation plus reinvested dividends.

5 Year
— Heinz
— S&P 500
— S&P Foods



Annualized Return
21.3% Heinz
23.2% S&P 500
20.8% S&P Foods

20 Year*
— Heinz
— S&P 500



Annualized Return
21.7% Heinz
17.2% S&P 500
*S&P Foods return was not tracked in 1978

LETTER FROM THE CHAIRMAN Dear Fellow Shareholders: ■ I want to pay a particular tribute to the new leader of your company, Bill Johnson, who became CEO on May 1 and who is one of the world's most determined and energetic business leaders. Bill has demonstrated in his successful career that he can drive top-line growth and profit in so-called "mature" categories like tuna and pet food. A new chapter is beginning at Heinz with the prospect of continued superior growth and performance. ■ As the chart on page 1 shows, we Heinz shareholders have enjoyed an excellent return on our investment in the past five years (21%). The credit for these outstanding results lies with our strong management and dedicated employees. As we approach our 130th anniversary, I want to say how proud I am of this great company and its continued record as a first-rate investment and good corporate citizen of the world. ■ Our company's enduring strength lies in its brands. Particularly during the past 20 years, Heinz enlarged its basket of brands by expanding into pet products, foodservice, frozen snacks and, of course, Weight Watchers. Most importantly, Heinz attained international stature and established a presence on every inhabited continent by forming new affiliates in Argentina, Spain, Greece, Hungary, Czech Republic, Poland, Zimbabwe, Botswana, South Africa, Ghana, Seychelles, Egypt, New Zealand, India, China, Korea and Thailand. ■ Through a host of marketing techniques, we proudly put our brands before consumers around the world, speaking to their particular tastes and addressing their common need for pure food, wholesome nutrition and, above all, delicious, mouth-watering taste. ■ Heinz ketchup, America's favorite condiment, was created in 1876. It is now a global icon brand, connoting great flavor, fun and conviviality. Of course, ketchup first derived from *ke-tsiap*, a word from the Amoy dialect of Chinese meaning "the brine of pickled fish." It is appropriate that Heinz is now introducing China to the joys of tomato ketchup as that country emerges as one of the economic powers of the coming century. The odyssey of ketchup serves also as a useful reminder that Heinz's expertise is in food recipes and in fashioning that expertise to suit different tastes, eating habits and cultures around the world. That is why globalization of our eight categories, including ketchup and sauces, makes eminent sense and will compel managers to think innovatively in terms of product formulations, packaging and marketing. ■ This year's annual report salutes some of our distinctive marketing campaigns across the globe. Through a diversity of media and methods, our advertising, marketing and public relations managers around the world stimulate the interest and cultivate the loyalty of consumers. They are "making it happen" through creativity and energy. Their efforts are continuous and effective, as attested by our global or regional market

leadership in ketchup, baby food, tuna, frozen potatoes, pet food and soup. We invite you to take a behind-the-scenes look at the breadth and variety of our marketing strategies, as highlighted throughout this volume. I was CEO of this great company for nearly two decades and want to record my gratitude and thanks to the 40,500 employees around the world whom I had the honor to lead. There is something noble and truly great about Heinz and its people. As the Founder said, we make and sell "pure foods" and "do the common thing uncommonly well." We bring pleasure every day to millions of people, making their lives a little bit better amidst all the stresses and strains of the modern world. At the same time, we have created wealth for loyal investors who have seen our market capitalization grow from $900 million in 1979 to $21 billion this year, an average yearly return of 22% compared to 17% for the S&P 500. More importantly, we have the management, the employees, the brands and the products to continue to deliver superior shareholder value into the 21st Century.

Anthony J. F. O'Reilly

Chairman

LETTER FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER Dear Fellow Shareholders:

I feel deeply privileged to have been selected as the new chief executive officer of H.J. Heinz Company and to lead one of the world's most enduring corporations into a new century of growth. Fiscal 1998 was a transitional year which began another era of growth and share-owning value at Heinz. As only the sixth CEO in the 130-year history of H.J. Heinz, I am conscious of the achievements of my predecessors, most recently Tony O'Reilly, who has become non-executive chairman of the board until 2000. Project Millennia, our reorganization program, was a great success. Through improved efficiencies and investing in our brands, we achieved the following results: • Sales for the year grew 4.5%, excluding the impact of foreign exchange and acquisitions net of divestitures. • EPS was up 11.4%, compared to a base of $1.93, to $2.15 per share. • Our gross profit margin was 38.4%, up from 36.0% last year. • Asset turnover was 1.12 and return on invested capital (ROIC) was 26.8%, up 5.4 points compared to last year. • Operating


Heinz
8:57

working capital was reduced by approximately $350 million. • More than $1.3 billion of free cash flow was generated. ■ As such indicators show, Fiscal 1998 was a year of significant achievement and progress that set Heinz on a path to continued growth and improvement. ■ Your management team has rededicated itself to the future through a formula we have dubbed "V5V" or "V x 5 = Victory." Through Vision, Voracity, Value, Volume and Velocity, we can achieve Victory as the most dependable growth and results-driven company in the global food industry. ■ ***Victory*** for Heinz means delivering superior shareholder value. It means realizing ambitious, but realistic, performance goals that we have set for the coming years, including: consistent 10-12% annual EPS growth; 4-5% real unit growth; gross profit margins of more than 40%; a return on invested capital of more than 30%; and world-class "value chain" status from procurement to manufacturing to distribution. ■ To accomplish this requires ***Vision***—the vision of a truly global Heinz, turning from reliance on affiliate strategies and manufacturing to global leverage of our eight core categories of foodservice; infant feeding; ketchup, sauces and condiments; pet food; tuna; weight control; frozen food; and convenience meals. ■ Global category management enables us to leverage the brand and manufacturing strengths that were brilliantly developed in separate affiliates around the world during the past two decades. We now have the opportunity to utilize technology and the international market to share best practices, increase efficiency and attain greater consistency. One example is the process underway to standardize our worldwide ketchup business. We estimate this ketchup initiative alone should yield substantial annual savings, which can then support marketing investment in the brand and increase volume. It's the classic virtuous cycle of growth. ■ We will propel our global vision with a new culture of ***Voracity.*** We are stimulating our management team's voracious appetite to succeed through "centralized decentralization." By this we mean our strategy will be global, directed by ambitious centralized goals. There will be decentralized local accountability, motivated by a creative, entrepreneurial zeal. ■ Our global team is intently focused on delivering sustainable growth in shareholder ***Value.*** We anticipate continued progress in such key investment concerns as: increased sales and market shares, improved ROIC, higher margins and greater capital efficiency. We have shrunk our capital base through Project Millennia, but more can be done. We have changed executive compensation to ensure a stronger value focus, greater performance, and even closer alignment with shareholder interests. ■ A primary factor in our company's valuation is top-line performance, fueled by greater ***Volume*** around the world. A mix of global expansion, acquisition,

improved marketing and new products will achieve this — all supported by increased margins and continued cost reduction. Our top executives will be given responsibility for major customers so that we may work more closely with them to satisfy changing consumer demands. Opportunities abound in trends, such as meal solutions, nutraceuticals, the growing global popularity of pets, and the increasing world appetite for eating out. We can expand the range of host foods for our ketchup and condiments, while increasing usage around the world. We are pursuing value-added product offerings for tuna. And we are looking to turn the graying of the developed world to the advantage of our weight control business. We are particularly impatient about pursuing change. Hence, the stress on ***Velocity.*** The transformation of Heinz will not be glacial; it will be lightning quick. We begin Fiscal 1999 with new senior management appointments to help drive our new philosophy forward immediately. Our present focus is on realizing seven "growth drivers" to take our business forward in Fiscal 1999 and beyond: **1** Establishing "centers of excellence" to share best product, packaging and manufacturing successes across affiliates in order to grow volume in existing and new markets. **2** Standardizing procurement, manufacturing, labels and processes to accelerate cost reduction. **3** Intensifying our sales efforts, fed by the savings from global synergies. **4** Testing and introducing innovative recipes, packaging, meal solutions and snacks for busy consumers worldwide, including teens and young adults. **5** Marketing our brands with contemporary and compelling ideas, advertising, merchandising and public relations. **6** Benchmarking and beating the competition every time in taste, nutrition, convenience, packaging and delivered cost. And, **7** identifying uses of capital that enhance enterprise value, whether they be share repurchases or acquisitions. To summarize the "V5V" equation: Heinz will achieve victory through a vision based on global category management and growth; a voracious appetite for success; an unyielding focus on enhancing shareholder value; a dedication to volume growth fueled by cost containment; and a high-velocity commitment to change. This formula is the key to greater shareholder return and a dynamic future for Heinz as the most dependable growth and performance company in the global food industry.

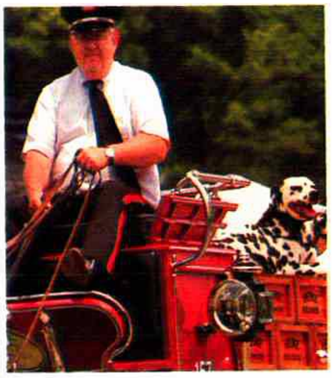
Bill Johnson

William R. Johnson

President and Chief Executive Officer

MAKING IT HAPPEN A GREAT BRAND SPEAKS MANY LANGUAGES. AND THE BRANDS OF HEINZ SPEAK TO CONSUMERS AROUND THE WORLD IN MANY WAYS. USING EVERY CHANNEL OF COMMUNICATIONS – FROM TELEVISION TO PERSONAL APPEARANCES TO THE INTERNET – HEINZ REACHES OUT DAILY TO MILLIONS OF LOYAL CONSUMERS ON EVERY INHABITED CONTINENT. THIS YEAR'S ANNUAL REPORT PAYS TRIBUTE TO THE TALENTED AND DEDICATED PEOPLE WHO WORK AT "MAKING IT HAPPEN." THEY CREATE THE COMPELLING IMAGES AND CONVINCING ENCOUNTERS THAT DEFINE HEINZ'S MARKETING EFFORTS. THIS REPORT IS A SMALL SAMPLING OF THE VARIED STRATEGIES AND IMAGINATIVE METHODS HEINZ EMPLOYS TO SPUR EVER-GREATER GLOBAL DEMAND FOR ITS PRODUCTS.

THE HEINZ HITCH



Each year, the Heinz Hitch travels 57,000 miles, appearing before more than 10 million North American spectators. "Participating in the Pasadena Tournament of Roses Parade is the high point of our year. It's incredible. Over 800 million people around the world watch the parade," says Hitch General Manager John Dryer, a retired Heinz U.S.A. executive. The Hitch has occupied the 57th parade position for two years, towing a flower-bedecked float featuring first Morris the 9-Lives Cat, then Charlie the Tuna. In 1999, the Hitch will pull a float for Weight Watchers.

MOVIE ARCADE
PASADENA
TOURNAMENT
OF ROSES


HEINZ
ハインツ
3種の豆入りカポナータ
温泉卵添え

GLOBAL BRANDS AND BUSINESSES *Heinz set new standards for global growth in Fiscal 1998. Worldwide net sales for the year reached $9.2 billion, with 53% coming from U.S. operations and the remaining 47% from non-U.S. affiliates. Bolstered by savings generated from the Project Millennia reorganization, Heinz supported its brands with aggressive marketing programs.* ■ **BRAND BUILDING** Heinz's power brands set the pace. With nearly half the U.S. retail market, Heinz ketchup returned to television with the launch of the "Mine's gotta have Heinz" advertising campaign. On grocery shelves, consumer interest was piqued with limited-edition labels on 20-ounce Heinz ketchup bottles featuring three different designs chosen from among 50,000 student entries. Canadian ketchup sales remained strong, as Heinz captured 70% of the retail market. ■ In Northern Europe, Heinz U.K. launched tomate frito, transplanting the tomato-based cooking sauce long a Spanish favorite under the Orlando brand. Meanwhile, aggressive advertising pushed Heinz retail ketchup sales up 20% in Spain and 39% in Portugal.

FOOD SUMMIT

Heinz Japan is the country's leading foodservice supplier. To promote its products, the company hosted Heinz Food Summit 1998 (left), an exhibition that toured Tokyo, Osaka and Nagoya. Emphasizing "meal solutions," this Heinz Japan showcase featured products from Heinz affiliates worldwide. Ayumi Nishimura (inset, left) of Heinz Japan's new product development department offered menu suggestions, plus ways to use Heinz sauces and condiments. She explains, "We tell our customers, 'your smallest problems are our biggest worries.' That is the key to pleasing restaurant chefs and owners."

DUCHESS OF YORK

"If I can do it, anyone can," exults Sarah, Duchess of York and spokesperson for Weight Watchers. Her television commercials and personal appearances have helped the company boost U.S. membership 50%. Fans can't get enough of The Duchess, who admits "Weight Watchers changed my life." Linda Webb Carilli, general manager-corporate affairs, oversees The Duchess' appearances on behalf of Weight Watchers. "People are really moved by her honesty and down-to-earth manner," Carilli says. "At one of our Super Meetings, attended by 250 people, every single person stood in line, waiting for her autograph."

Greece saw the Heinz brand capture nearly 24% of the ketchup market. Central Europe also showed keen interest in the keystone condiment, as Heinz ketchup sales increased 28% in Poland, and the flagship product was introduced in Hungary, the Czech Republic and Slovakia. ■ Infant feeding scored new gains around the world. In the U.K., the Heinz and Farley's brands reached new records for formulas, dry meals and baby drinks. These gains—together with a share increase in canned and jarred baby foods to nearly 59%—secured even more of the overall infant feeding category. ■ Heinz Italia attained a 77% share of its country's infant feeding business, despite strengthening competition and a changing regulatory environment. Also in Italy, total jarred baby food volume grew nearly 5%, as stepped-up promotions helped push baby pasta 13% higher and drove Plasmon brand baby teas up 26%. ■ In Spain, Heinz's jarred baby food grew 36%, and baby biscuits increased even more dramatically, by 43%. The year saw the introduction of the Heinz brand of baby food into Hungary. Together with the

YEAR OF KETCHUP

Thanks to Alimentos Heinz's "Year of Ketchup," Venezuelan consumers now find Heinz ketchup at Wendy's and McDonald's. They also find pouches of Heinz ketchup in bags of Ruffles brand potato chips, a promotion that created a new Venezuelan snack sensation: dunking Ruffles in Heinz ketchup. "For our year-long celebration, we offered trade and consumer promotions, created eye-catching posters (left) and filmed new television commercials," notes Tamara Mambelli, marketing group manager. Everything worked. Market share rose six points to 43%.

company's already popular Kecskemet brand, Heinz now has an 85% share of Hungary's wet baby food business. In the Western Hemisphere, Heinz built up its share of the U.S. baby food market to 17%, despite a declining category. It also expanded its organic offerings with the Earth's Best brand of snack bars and first foods for infants and toddlers. Heinz Canada, which has an 80% market share in baby food, added to its lineup with the Earth's Best brand and Congee, a unique line of Asian-style, rice-based baby foods for domestic consumption and international export. In Venezuela, Alimentos Heinz boosted its baby food shipments 58% to the highest level in four years. Across the Pacific, Heinz-UFE in China increased its share of the rice cereal market to 37%. Heinz Australia saw infant formula shipments more than double and sales of Earth's Best baby food nearly triple, as baby food in glass jars recorded a 20% volume increase. Heinz India restaged and reformulated its Farex baby foods to add to its share of the world's fastest-growing population. Star-Kist led the way in tuna, with

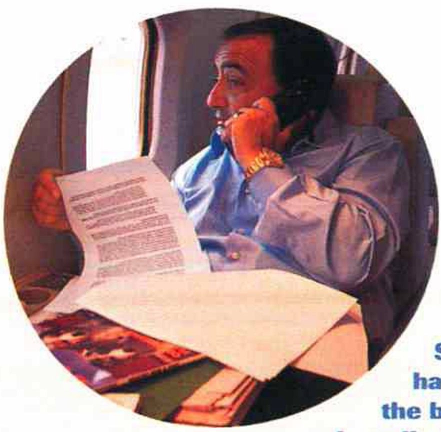
an impressive 49% share of the U.S. market. In France, where the Petit Navire line holds 16% of the total canned fish market, the company added tuna salads and rillettes fish spread. With the Mareblu brand now added to Heinz's Italian network, tuna sales in Italy averaged double-digit growth rates. Heinz also expanded its value-added product lines in Australia, where sales of Greenseas brand tuna lunch kits jumped 50% and those of flavored tuna varieties rose about 40%. ■ Heinz Pet Products recorded more outstanding performances in the dynamic pet food category. With 20% of the U.S. cat food market, 15% of the nation's dog food segment and 29% of the thriving pet treats business, Heinz had a leading presence in the $10-billion domestic pet food industry. 9-Lives once again was tops in canned cat food with a 25% market share. Further enhancing the brand's performance, Heinz introduced the convenient "9-Lives 4-Pack," with four cans of 9-Lives packaged as a single unit. Kibbles 'n Bits made another strong showing. To add luster to the brand, Heinz added a new variety, called Kibbles 'n Bits

LOVELY LULLABIES

Heinz employees are a talented lot. Still, no one expected a French/English CD—created, produced and performed by Heinz Canada employees—to become a hit recording. Yet, 230,000 Heinz Lullaby CDs—a consumer promotion offering a free CD with every two boxes of infant cereal purchased—flew off the shelves throughout Canada. The lovely lullabies, sung by Bertha Daniels (far right) under Sharon Eizenga's direction, increased cereal sales 35% and totally satisfied J.J. Lee (above, left), assistant product manager and project coordinator.


K-9 CORPS
LATE CITY EDITION
Times.
TEN CENTS
NEW VIETNAM RAI

Puppy, a specially formulated blend that delivers superior taste while addressing the specific nutritional needs of puppies. ■ Another breakthrough was Nature's Recipe Group Specific Formula. This customized line of dog foods meets the unique dietary needs of the seven dog breed groups recognized by the American Kennel Club. These formulations use all-natural ingredients with added herbs, vitamins and minerals to mirror health trends in human foods. ■ Martin Pet Foods in Canada launched a new Heritage line of dry dog food—billed as the "microbrew of pet food." Techni-Cal canned and dry pet foods were relaunched with new packaging and a new taste for Canada's premium pet food market. And seven new products were added to Canada's growing pet treats business. Heinz expanded its offerings in Japan with the introduction of five varieties of Amoré and Reward premium canned pet foods. ■ Down Under, Heinz Australia introduced two new pet food lines: PETDELI dog and cat treats and Gourmet canned dog food. ■ The accelerating popularity of eating out helped fuel



Sales of Nature's Recipe pet food have soared 45% since Heinz acquired the business in 1996. Jeff Bennett, the brand's creator, jets around the country—indeed, the world—extolling the latest concept, Nature's Recipe Group Specific Formula, a diet designed for specific dog breeds. Such dedication to canine well-being prompted Nature's Recipe to sponsor the documentary "War Dogs," an epic story of elite dogs who fought and died in Vietnam, saved 10,000 American lives, then were forgotten. Proceeds from the film's release will support the Vietnam War Dog Memorial in Washington, D.C.

CANINE HEROES

PVT. PICKLE

"When you're in a pickle...think of Private Pickle!" That's the theme behind an imaginative campaign to increase goodwill and market share within the military, Heinz's largest single U.S. grocery customer. Private Pickle is the brainchild of Gregory Davis, military sales and marketing manager. The seven-foot mascot visits commissaries, day care centers and hospitals. Davis attended the Ft. Lee, Virginia send-off for Private Pickle's tour of 100 U.S. and European military bases. "To see 220 children hugging and singing 'Happy Birthday' to this character was an experience that will stay in my memory forever."

Heinz's foodservice business. Single-serve ketchup in the U.S. posted the strongest volume gains in three years, with more than 10.6 billion packets served per year to foodservice patrons across the nation. Concurrently, Heinz foodservice ketchup sales jumped 27% in the U.K., 26% in Germany and 25% in France. ■ New partnerships and brands expanded Heinz's portion-control business. Chef Francisco asserted its leadership in foodservice frozen soup with six new varieties. To capitalize on the trend toward grocery store take-out meals, Chef Francisco soups and chili now are sold at in-store deli departments and salad bars. Brand repositioning helped Escalon tomato products continue to grow share in important sectors of the foodservice pizza and pasta markets. ■ Heinz's European foodservice varieties grew with the relaunch of single-serve products, plus new lines of soup, pouch-pack tuna and barbecue sauce. Sales of single-serve sauces, including ketchup, more than doubled in Spain. ■ Having divested its foodservice business under Project Millennia, Ore-Ida focused on its retail

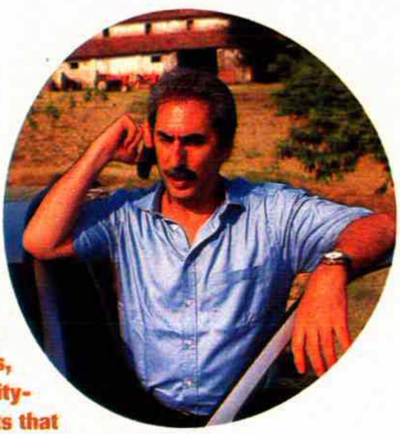
A TOAST TO LIFE

"A Toast To Life" is among Heinz U.K.'s most successful and daring advertising campaigns, featuring an evocative soundtrack by South Africa's Ladysmith Black Mambazo and the group's composer, Joseph Shabalala (left). "Just as the campaign rejects conventional images," notes Jane St. Clair-Miller, manager of corporate marketing, "the soundtrack spurns predictable Western music." The Zulu rhythms elicited 3,000 enthusiastic consumer calls and letters, leading the company to release a Heinz Ladysmith Black Mambazo CD, which immediately rose to the U.K. Top 40 and helped the campaign significantly strengthen consumer allegiance.

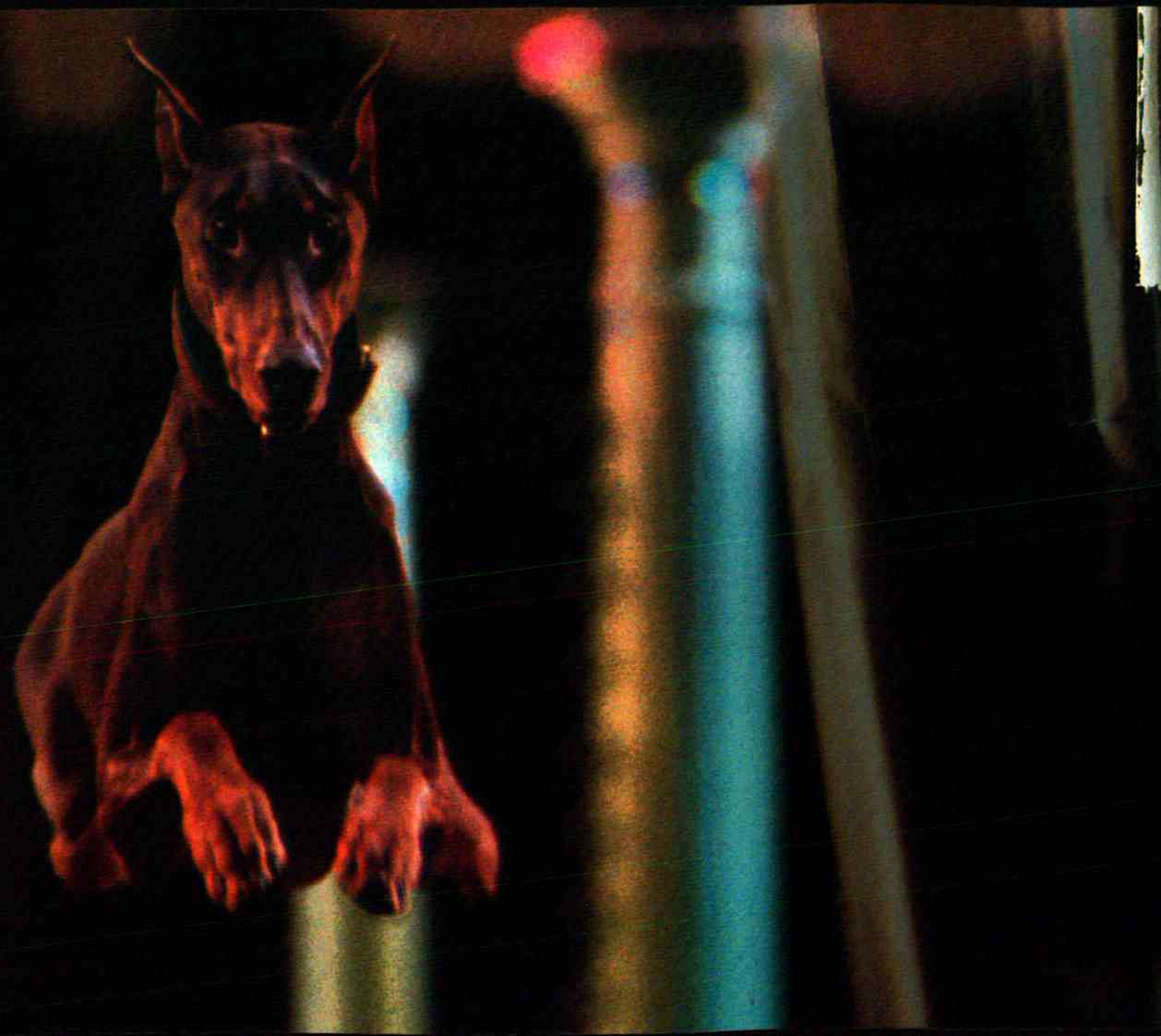
frozen potato and snack businesses with renewed vigor. Increased sales helped Ore-Ida boost its share of the retail frozen potato market to 56%. Even higher shares were recorded for Ore-Ida battered/seasoned products and Tater Tots brand potatoes, which garnered 68% and 73% of their respective segments. Shipments for Bagel Bites brand pizza-topped snacks rose 23%, with new consumption records set for the weeks surrounding New Year's and the Super Bowl. ■ Ore-Ida innovations included the launch of Oven Chips frozen potato snacks; a line extension to the brand's frozen mashed potatoes; and Rosetto pasta primavera. Through marketing tie-ins and cross-promotions with brands such as Disney, Coca-Cola and Ragú—as well as Heinz ketchup—Ore-Ida gained new visibility with consumers. ■ Heinz's businesses in Australia and New Zealand expanded with the launch of new varieties of frozen fish, stir-fry with noodles, and frozen meals. ■ Following dramatic results in the U.K., Weight Watchers International's 1•2•3 Success™ Plan debuted in North America in August 1997.

Supported by broadcast and print advertising featuring Sarah, Duchess of York, the new Weight Watchers program once again was a hit, spurring a 50% increase in U.S. enrollments, both in the summer and during the crucial winter diet season. The public relations effort surrounding the 1•2•3 Success™ Plan included a new cookbook, *Dining With The Duchess*, and a "Tea with The Duchess" sweepstakes for Weight Watchers members. ■ Meanwhile, Weight Watchers in the U.K. took its program further with the introduction of 1•2•3 Success™ Plus, the first enhancement of the popular program. The launch produced a new all-time high U.K. record with more than a quarter million enrollments in the seven-week campaign. ■ Five continental European countries saw Weight Watchers launch Success Signals Plus, an innovative food plan that produced a 60% rise in enrollments within the first month. ■ Weight Watchers Gourmet Food Company reduced prices and restaged The Budget Gourmet line to gain double-digit increases in shipments versus the prior year. The price rollback boosted volume 26%

OASI ECOLOGICA



Plasmon, Italy's premier baby food line, enjoys a 77% market share for many reasons—particularly the company's environmental oasis, or *oasi ecologica*. This quality-seal program assures parents that Plasmon's raw materials are thoroughly tested for pesticides, hormones and other chemical contaminants. Heinz Italia aggressively communicates this farm-to-factory story. Each growing season, Gianpaolo Ricci (inset), communications director, gives Italian journalists a first-hand look at participating orchards and farms, so they can better relay Plasmon's purity message to Italian moms and dads.



during the second half of the fiscal year. And Weight Watchers increased its volume 15% by restaging its lead brand as Smart Ones from Weight Watchers to consolidate the line behind one name and broaden consumer appeal. ■ In Europe, the company responded to growing British and Irish appetites for convenient nutrition with Weight Watchers Frozen Ready Meals. French and Belgian consumers were treated to a relaunch of Weight Watchers frozen meals, with new recipes and updated package design that encouraged a 9% rise in unit sales. The introduction of a range of chilled salads under the Weight Watchers label increased the brand's sales in France by 17%. ■ Throughout the world of Heinz, convenience meals gained a growing presence among consumers seeking affordable "one-step prep" nutrition. Heinz U.S.A., the leader in private-label soups, expanded its offerings to retail customers with a new line of 98% fat-free condensed soups. ■ Heinz soups were number one in the U.K., with 50% of the market. Another favorite was pasta, and Heinz U.K. launched pasta featuring Mattel, Inc.'s

SUPERDOGS

Four years ago, Lynette Taylor (inset, right), marketing manager for Techni-Cal super-premium dog food, agreed to sponsor Superdogs, a traveling Canadian canine circus. "Superdogs are wonderfully entertaining, but not elite," Taylor says. "In fact, the show, with a revolving cast of 400 dogs and handlers, uses all breeds, so every pet owner can relate to them." Last year, 1.5 million Canadians watched the troupe perform under the direction of Herb Williams. The show's popularity continues to soar, and Techni-Cal, sold through vets and specialty stores, is now Canada's number-three super-premium brand.

DAME EDNA

"I'm as good as you are, and you're nearly as good as me," trills "Dame Edna" (British comic Barrie Humphries, at far right) to cheering Heinz U.K. employees. Resplendent in a yellow dress encrusted with baked beans and a "plate" of Heinz products, the Dame launched his/her tour of British workplaces at Heinz's Kitt Green plant. "It was a great morale booster," comments Norman Cox (inset), human resources manager, who organized the Heinz end of the show. The hilarious performance became a general release video—a comic-hall valentine from England's favorite "housewife" to the country's favorite "bean refinery."

popular Barbie doll. This line quickly took the lead—and a 16% market share—in the pasta shapes market aimed at young consumers. Heinz still "Meanz Beanz" in the U.K., where children were treated to two new "Taz" baked bean products whose labels spotlight the familiar Tazmanian Devil cartoon character by Looney Tunes®.

■ In Australia, fresh advertising helped Heinz beans and spaghetti increase sales 12%. The pasta business there benefited from the launch of a line featuring the animated hero, Sonic the Hedgehog. ■ **PRODUCTION AND PROCUREMENT** Project Millennia was the major influence on the configuration of Heinz's global manufacturing and procurement. The company achieved its reorganization goals, with many factories downsizing, closing, expanding, moving production lines or altering the kinds of products they made. Heinz U.S.A.'s West Coast tomato production network was reconfigured with the closure of the Tracy, California plant. Its production was shifted to expanded and upgraded factories in nearby Stockton and Escalon, California. The

Sales of Bagel Bites are up 19%, due partly to creative use of the Internet. Ore-Ida's Bite Bunch Web Site promotes the frozen snack line to parents and kids. "The Web is a brilliant way to develop a relationship with consumers," stresses Sameer Rabbani, who oversees the site and dreams up new games—such as Food Fite, aimed at 11- to 14-year-olds. The Bite Bunch site has already paid for itself, adding thousands of names to Ore-Ida's database as Web surfers request coupons or sweepstakes forms.

FOOD FITE

company's Fremont, Ohio plant began efforts to make products from tomato paste rather than fresh tomatoes. This enables steady year-round operations. The single-serve pouch facility in Jacksonville, Florida was expanded. ■ Heinz Canada began enlarging its Leamington, Ontario factory to increase beans and pasta production. Heinz Bakery Products announced the transfer of production from facilities in New York and Ontario to a new center in Trenton, Ontario. ■ Heinz Pet Products realigned its Midwest manufacturing with the closure of its facility in Kankakee, Illinois, while adding pet treats production at its Topeka, Kansas plant. ■ Hain Food Group, Inc. acquired the Alba Foods line from Heinz U.S.A. ■ Weight Watchers also reorganized its U.S. meeting system by closing inefficient locations and exiting the Personal Cuisine business, which sold food at certain meeting centers. ■ Overseas, Heinz U.K. restructured its infant food plant in Kendal. Heinz's tuna plants in Ghana and the Seychelles were expanded, as were the infant food plants in Aligarh, India and Ozzano Taro, Italy. Heinz Italia closed its

Milan manufacturing operations. In Spain, Heinz announced the consolidation and upgrade of its manufacturing sites. Heinz-Wattie in New Zealand consolidated three of its businesses into one company to improve overall performance. It also transferred the manufacturing of pet foods and prepared foods from its plants in Gisborne to a major manufacturing site in Tomoana. ■ The major external influence on procurement was El Niño, which produced flooding on the U.S. West Coast and drought conditions in Southern Africa. Ironically, the U.S. tomato crop was not adversely affected, due to extremely dry conditions during much of the remaining growing season. As a result, field yields were the highest in California history. ■ Tuna felt the greatest impact of El Niño, as shifting fishing patterns led to significantly lower fish supplies—with resulting higher prices—during the winter months. ■ **MARKET EXTENSION** Heinz strengthened its core businesses with a series of strategic acquisitions. Heinz U.K. acquired John West Foods Limited, the leading brand of canned tuna and fish in the United Kingdom. To

MORRIS

Like all superstars, Morris the 9-Lives Cat arrives at photo shoots in a white limo. "But aside from the occasional pedicure," says handler Dawn Haney, "he's a low-maintenance cat." And a high-payoff performer for 9-Lives. Morris tours key markets, generating sales wherever he appears. Each year, 9-Lives publishes the Morris Calendar—a photographic tribute to Morris that is also packed with coupons. Last year, redemption rates rose 55%. More than 100,000 1998 calendars are in print, making Morris America's favorite "pin-up."


Allyson Gofton

build its foodservice business, Heinz U.K. purchased the single-serve foodservice business of CPC (United Kingdom) Ltd. and its Frank Cooper's brand. Heinz is now one of the leading suppliers of single-serve items in Europe. ■ The company extended its reach into Central and Eastern Europe with the acquisition of Pudliszki S.A., Poland's largest ketchup producer and a marketer of tomato concentrate, canned vegetables and cooking sauces. ■ Southern Africa saw considerable activity. Heinz South Africa acquired a majority interest in a joint venture with Tiger Oats Limited of Johannesburg to form a new company called Pets Products (Pty) Limited. The joint venture is South Africa's number-one pet food company. Heinz also acquired Wellington's, the sauce, condiments and dehydrated vegetable division of South Africa Dried Fruit Co-Operative Ltd. In Zimbabwe, Heinz's Olivine affiliate acquired Reckitt & Colman's food business, maker of well-known varieties of fruit juices, sauces, condiments and pet food. ■ Heinz-Wattie in New Zealand complemented its strong pet food line with the

FOOD IN A MINUTE

"Food In A Minute," Heinz-Wattie's wildly successful 60-second TV commercial, features "instant" recipes assembled by popular New Zealand chef Allyson Gofton (inset, center). Helping Gofton devise recipes, such as "Baked Bean Pizza," are John Macdonald (right), business manager-grocery foods, and Vivienne Kerr (left), business category manager. The series of 100 (and counting) spots gives New Zealanders simple meal solutions for busy lives. Sales and market share of featured products rise like soufflés. The series-spawned cookbooks, New Zealand's fastest-selling volumes, are now in 15% of Kiwi households.

CALENDAR KIDS

"Moms and dads love to take photos of their babies," says Simon Fung, senior marketing manager for Heinz-UFE. On this premise, he directed a Heinz baby photo contest as part of an 80-city consumer promotion in China. "Chinese parents treasured this opportunity to show off their babies," says Fung, who received more than 10,500 entries and, with his marketing team, chose the 12 winning photos to appear in a Heinz 1998 desk-top calendar. The overall program, which included purchase premium offers, increased Heinz's market share from 31 to 37%.

purchase of Bruno Pet Foods Ltd., a leading processor of chilled dog foods.

■ Following the close of the fiscal year, Heinz acquired the College Inn brand of canned broth from Nabisco Inc. College Inn is a leader in the East and Midwest, with sales of $50 million. Heinz also purchased rights to the Vidalia O's brand of frozen onion rings to complement Ore-Ida's frozen vegetable lines. Vidalia O's are made from Vidalia Sweet Onions, a variety certified by the Georgia Department of Agriculture.

■ **PUBLIC SERVICE** Heinz employees around the world continued the company's proud tradition of community service. The H.J. Heinz Company Foundation led with about $6.5 million in grants to 855 worthy organizations. For the 18th year, Heinz U.S.A. sponsored the Children's Miracle Network, raising more than $360,000 for 160 hospitals through its baby food label-saving program. Ore-Ida once again raised $100,000 for Toys for Tots and conducted a successful "Tots for Shots" child immunization program in Idaho. Weight Watchers contributed $200,000 to the National Alliance of Breast Cancer

SORRY, CHARLIE!

Charlie the Tuna is back on TV, sporting a leaner look as an active, fit, '90s kind of guy. Recently, Charlie's been promoting StarKist's Heart Check certification, awarded by the American Heart Association. "Charlie stands for quality and good taste—that's the standard he bears for StarKist," indicates Virgil Knapke, general manager-consumer marketing. "His quest is never ending; it's why Charlie's such **a lovable loser**." Charlie's happy to take full credit for a market share larger than StarKist's two closest competitors combined.

Organizations, including proceeds from its successful "Tea with The Duchess" sweepstakes. Heinz Pet Products earned the American Humane Association's Special Achievement Award for its Heinz Homeless Pets program and the Heinz PETelethon, which together have raised nearly $6 million for animal shelters. ■ Heinz Italia gave toys and biscuits to children in the aftermath of earthquakes in central Italy, while Heinz Canada sent jarred and canned food to help families displaced by freak ice storms in Quebec. ■ The Heinz Institute of Nutritional Sciences continued to provide much-needed information on nutrition to physicians, government officials and consumers in various countries around the world.

In Fiscal 1998, the H.J. Heinz Company made significant progress on the implementation of Project Millennia, the company's largest-ever reorganization plan announced in the fourth quarter of Fiscal 1997. Project Millennia was designed to strengthen the company's core businesses and improve the company's profitability and global growth.

On June 30, 1997, the company completed the sale of its Ore-Ida frozen foodservice business to McCain Foods Limited. The transaction resulted in a pretax gain of approximately $96.6 million ($0.14 per share), and was recorded as an offset to selling, general and administrative ("SG&A") expenses. (All earnings per share amounts included in Management's Discussion and Analysis are presented on a diluted basis.) Including this divestiture, the company has announced the closure or sale of 25 plants worldwide.

The results for Fiscal 1998 included non-recurring costs related to the implementation of Project Millennia of $84.1 million pretax ($0.14 per share). These non-recurring costs consist primarily of relocation, training, consulting and start-up costs.

In comparison, the financial results for Fiscal 1997 were also significantly impacted by Project Millennia. Restructuring charges and related costs recorded in Fiscal 1997 for Project Millennia totaled $647.2 million pretax ($1.09 per share). Also during Fiscal 1997, the company recognized gains on the sale of the New Zealand ice cream business, $72.1 million pretax ($0.12 per share) and real estate in the United Kingdom, $13.2 million pretax ($0.02 per share). As an integral part of Project Millennia, the company implemented a program to eliminate inefficient end-of-quarter trade promotion practices, which reduced Fiscal 1997 earnings by an estimated $102.7 million pretax ($0.17 per share).

RESULTS OF OPERATIONS

1998 versus 1997: Sales for 1998 decreased $147.7 million, or 1.6%, to $9.21 billion from $9.36 billion in 1997. The sales decrease was primarily due to divestitures which reduced sales by 6.6% for the year and the unfavorable effect of foreign exchange translation rates which reduced sales by 3.1%. Sales volume increased 3.1%. In addition, acquisitions increased sales by 3.5% and favorable pricing increased sales by 1.5%. Domestic operations contributed approximately 53% of consolidated sales in 1998, compared to approximately 55% in 1997.

Divestitures accounted for $617.0 million, or 6.6%, of the sales decrease. This decrease is primarily attributable to the divestitures of the Ore-Ida frozen foodservice business in the first quarter of Fiscal 1998 and the New Zealand ice cream business in the fourth quarter of Fiscal 1997. The unfavorable sales impact of divestitures was partially offset by acquisitions, which increased sales by $332.0 million, or 3.5%. During Fiscal 1998, the company acquired John West Foods Limited in Europe and made other smaller acquisitions. Fiscal 1997 acquisitions impacting the year-to-year sales dollar comparison include substantially all of the pet food businesses of Martin Feed Mills Limited in Canada, the canned beans and pasta business of Nestlé Canada Inc. and other smaller acquisitions, primarily in the Asia/Pacific region.

Volume increased $286.8 million, or 3.1%, in 1998. Domestically, strong volume increases were noted in Ore-Ida retail frozen potatoes, soups and Heinz ketchup, offset partially by a volume decrease in dog food. Foreign volume increases were noted in seafood, infant food, weight loss classroom activities, weight loss entrees and bakery products.

Favorable pricing increased sales $136.4 million, or 1.5%, in 1998. Domestically, price increases were noted in seafood, Heinz ketchup and infant food, offset partially by a price decrease in frozen entrees.

Foreign currencies declined against the U.S. dollar, decreasing sales $285.9 million, or 3.1%. This decrease came primarily from sales in Italy and the Asia/Pacific region, offset partially by sales in the United Kingdom.

In Fiscal 1998, the company implemented "price-based costing" for The Budget Gourmet brand of frozen entrees. This strategy has turned around the negative volume trends noted in Fiscal 1997 with a volume increase in Fiscal 1998. In addition, the company has also refocused on the "Smart Ones from Weight Watchers" line of frozen entrees, resulting in a volume increase as well. Strong volume increases were also experienced in the Weight Watchers meeting business, which benefited from the implementation of the Weight Watchers 1·2·3 Success™ Plan in the U.S.

Gross profit increased $526.2 million to $3.50 billion from $2.97 billion, and the gross profit margin increased to 38.0% from 31.8%. Excluding non-recurring items related to Project Millennia in both years, gross profit increased $169.3 million, or 5.0%, to $3.53 billion, or 38.4% of sales, from $3.36 billion, or 36.0% of sales, last year. The current year was unfavorably impacted by non-recurring costs related to the implementation of Project Millennia of $35.7 million. The prior year was unfavorably impacted by Project Millennia restructuring and related costs of $477.8 million, partially offset by gains on the sales of the New Zealand ice cream business and real estate in the United Kingdom of $85.3 million. The current year's gross profit and gross profit margin were favorably impacted by price increases and reduced trade allowances which resulted from the discontinuance of inefficient end-of-quarter trade promotions, cost savings resulting from Project Millennia, a favorable product mix and the sale of the lower margin Ore-Ida frozen foodservice business.

SG&A expenses decreased $237.9 million to $1.98 billion from $2.22 billion and decreased as a percentage of sales to 21.5% from 23.7%. Excluding non-recurring items related to Project Millennia in both years, SG&A expenses decreased $20.3 million to $2.03 billion from $2.05 billion and increased slightly as a percentage of sales to 22.0% from 21.9%. Fiscal 1998 was favorably impacted by the gain on the sale of the Ore-Ida frozen foodservice business of $96.6 million, offset partially by non-recurring costs related to the implementation of Project Millennia of $48.4 million. The prior year was unfavorably impacted by $169.4 million of restructuring and related costs. Excluding non-recurring items related to Project Millennia in both years, increased marketing and general and administrative expenses were offset by lower selling and distribution expenses attributable to cost savings resulting from Project Millennia.

Total marketing support (including trade and consumer promotions and media) remained relatively constant on a sales decrease of 1.6%. However, advertising costs to support our key brands increased 13.8%. (See Note 16 to the Consolidated Financial Statements.)

Operating income increased to $1.52 billion from $756.3 million reported last year. Excluding the non-recurring items related to Project Millennia in both years, operating income increased 14.4% to $1.51 billion from $1.32 billion last year. This increase was primarily due to the increase in gross

profit, as SG&A expenses were relatively flat year-on-year. Operating income in the current year was negatively impacted by foreign exchange translation rates, primarily in Italy and the Asia/Pacific region, which reduced operating income by $45.5 million or 3.5%. In addition to the restructuring and related costs, last year's operating income was negatively impacted by the company's decision to eliminate inefficient end-of-quarter trade promotion practices. Domestic operations provided approximately 59% of operating income in 1998 compared to approximately 23% of operating income in 1997. Excluding the non-recurring items related to Project Millennia in both years, domestic operations provided 57% of operating income this year versus approximately 53% of operating income last year.

Non-operating expenses totaled $265.3 million in 1998 compared to $277.2 million in 1997. Net interest expense decreased $9.4 million, or 4.0%, to $226.0 million from $235.4 million due mainly to lower average borrowings.

The effective tax rate was 36.1% in 1998 compared to 37.0% in 1997. The 1998 effective tax rate reflects the benefits of recent tax legislation in Italy and the United Kingdom. (See Note 5 to the Consolidated Financial Statements.)

Net income increased $499.7 million to $801.6 million from $301.9 million last year and earnings per share increased to $2.15 from $0.81. Excluding the non-recurring items related to Project Millennia in both years, net income increased $143.5 million, or 21.8%, to $801.4 million in Fiscal 1998 from $657.9 million in Fiscal 1997 and earnings per share increased to $2.15 per share from $1.76 per share.

The impact of fluctuating exchange rates for 1998 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

1997 versus 1996: Sales for 1997 increased $244.7 million, or 2.7%, to $9.36 billion from $9.11 billion in 1996. The sales increase was primarily due to acquisitions (net of divestitures) and increased prices in a number of product lines. Sales volume was reduced by the company's program to eliminate inefficient end-of-quarter trade promotion practices, primarily in North America. Domestic operations contributed approximately 55% of consolidated sales in 1997, compared to approximately 57% in 1996.

Acquisitions (net of divestitures) contributed $225.5 million, or 2.5%, to the sales increase. Fiscal 1997 acquisitions impacting the year-to-year sales dollar comparison included: Southern Country Foods Limited in Australia, a producer of canned corned beef and meals; substantially all of the pet food businesses of Martin Feed Mills Limited in Canada, which produces and markets cat and dog food throughout Canada; the canned beans and pasta business of Nestlé Canada Inc.; and other smaller acquisitions.

Also contributing to the sales dollar increase were the following 1996 acquisitions: Nature's Recipe Pet Food in the U.S., which markets a brand of premium specialty pet foods; Alimentos Pilar S.A. of Argentina, a producer of pet and animal feed; Fattoria Scaldasole S.p.A. in Italy, a processor of organic foods; Earth's Best, Inc. in the U.S., which produces premium organic baby foods; Britwest Ltd. in the United Kingdom, which markets single-serve condiments, beverages and sauces in Britain and France; the Craig's brand of jams and dressings in New Zealand; Indian Ocean Tuna Ltd. in the Seychelles; and the Mareblu brand of canned tuna in Italy. Sales were reduced by the divestitures of the following non-strategic businesses: an overseas mushroom business; *Weight Watchers Magazine;* two regional dry

pet food product lines; the New Zealand ice cream business; and other smaller divestitures.

Worldwide prices increased $152.7 million, or 1.7%, in 1997. Domestic price increases occurred in Ore-Ida retail frozen potatoes, single-serve condiments and pet food. Overseas, prices increased in infant foods and soups.

Worldwide volume decreased $104.5 million, or 1.2%, in 1997. Sales volume was reduced by the company's program to eliminate inefficient end-of-quarter trade promotion practices as discussed above, primarily in North America. Domestic sales volume decreased 3.4%, as volume declined in Ore-Ida retail frozen potatoes, ketchup and infant foods. Sales volume also declined in frozen entrees (including weight control) due primarily to a very competitive marketplace. Domestic sales volume increased in food-service frozen potatoes, bakery products, condiments and pet food. Foreign sales volume increased 1.9%, driven by increased attendance overseas at the Weight Watchers meeting business.

Overall, attendance was up in the Weight Watchers meeting business due to a strong increase in attendance overseas, offset partially by lower attendance in the U.S.

Foreign currencies declined against the U.S. dollar, decreasing sales $29.0 million, or less than 1%. This decrease came primarily from sales in Japan, Central Europe and Zimbabwe, offset partially by sales in the United Kingdom.

Gross profit decreased $365.0 million to $2.97 billion in 1997 from $3.34 billion in 1996. The gross profit margin decreased to 31.8% from 36.6%. Excluding the effects of the 1997 restructuring charges and related costs of $477.8 million, and the gains on the sale of the New Zealand ice cream business and real estate in the United Kingdom of $85.3 million, gross profit would have increased $27.5 million to $3.36 billion, however, the gross profit margin would have decreased to 36.0%. Fiscal 1997's adjusted gross profit margin of 36.0% was impacted by the company's change in trade promotion practices and higher commodity prices, offset partially by favorable pricing.

SG&A expenses increased $166.3 million to $2.22 billion from $2.05 billion and increased as a percentage of sales to 23.7% from 22.5%. Excluding the effects of the 1997 restructuring charges and related costs of $169.4 million, SG&A expenses would have remained flat at $2.05 billion and would have decreased as a percentage of sales to 21.9%.

Total marketing support (including trade and consumer promotions and media) increased 3.8% to $2.05 billion on a sales increase of 2.7%.

Operating income decreased $531.3 million to $756.3 million from $1.29 billion. Excluding the effects of the 1997 restructuring charges and related costs, and gains recognized on the sale of certain non-strategic assets, operating income would have increased $30.6 million to $1.32 billion. The increase in operating income, excluding the impact of these non-recurring items, was primarily due to the increase in gross profit as SG&A expenses were relatively flat year-on-year. Domestic operations provided approximately 23% of operating income in 1997 compared to approximately 57% in 1996. Excluding the effects of the 1997 restructuring charges and related costs, and gains recognized on the sale of certain non-strategic assets, domestic operations would have provided approximately 53% of operating income.

Non-operating expenses totaled $277.2 million in 1997 compared to $263.9 million in 1996. Net interest expense increased 1.2% to $235.4 million from $232.6 million.

The effective tax rate was 37.0% in 1997 and 35.6% in 1996. The lower effective tax rate in 1996 reflects the recognition of operating losses overseas. (See Note 5 to the Consolidated Financial Statements.)

Net income decreased $357.4 million to $301.9 million from $659.3 million in Fiscal 1996 and earnings per share decreased to $0.81 from $1.75. After-tax restructuring charges and related costs, net of gains recognized on the sale of certain non-strategic assets, totaled $356.0 million, or $0.95 per share. Excluding the impact of these non-recurring items, net income would have decreased slightly to $657.9 million and earnings per share would have increased to $1.76. Earnings per share benefited slightly from a reduction in the average number of shares used for the calculation of earnings per share, which was due primarily to the company's share repurchase program.

The impact of fluctuating exchange rates for 1997 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

LIQUIDITY AND FINANCIAL POSITION

Return on average shareholders' equity (ROE) was 34.4% in 1998, 11.7% in 1997 and 25.5% in 1996. Excluding non-recurring items related to Project Millennia, ROE was 34.4% and 23.9% in 1998 and 1997, respectively. Pretax return on average invested capital (ROIC) was 27.0% in 1998, 12.6% in 1997 and 21.8% in 1996. Excluding non-recurring items related to Project Millennia, ROIC was 26.8% and 21.4% in 1998 and 1997, respectively.

Cash provided by operating activities increased to $1.07 billion in 1998, compared to $875.0 million in 1997 and $737.1 million in 1996. Fiscal 1998 benefited from increased earnings, while both Fiscal 1998 and 1997 benefited from the company's decision in the fourth quarter of 1997 to eliminate inefficient end-of-quarter trade promotion practices, which has resulted in improved inventory turns and reduced working capital. In both periods the increases were offset partially by expenditures related to Project Millennia.

Cash provided by investing activities totaled $27.2 million in 1998, compared to requiring $386.3 million in 1997. Proceeds from divestitures totaled $494.7 million in 1998, primarily due to the sale of the Ore-Ida frozen foodservice business, versus $165.6 million in 1997. (See Note 3 to the Consolidated Financial Statements.) In 1998, the company spent $142.1 million on acquisitions compared to $208.4 million in 1997. (See Note 2 to the Consolidated Financial Statements.)

Capital expenditures totaled $373.8 million in 1998 and $377.5 million in 1997. Both years reflect expenditures for productivity improvements and plant expansions, principally at the company's Heinz Pet Products, Heinz U.S.A., Wattie's, European Seafood, United Kingdom, Ore-Ida, StarKist Seafood and Heinz Bakery Products operations.

Purchases and sales/maturities of short-term investments decreased in 1998. The company periodically sells a portion of its short-term investment portfolio in order to reduce its borrowings. In 1996, investments in tax benefits provided $62.1 million, due mainly to the company's sale of certain domestic investments.

Financing activities used $1.15 billion in 1998 compared to $429.8 million in 1997. The company made net repayments on indebtedness totaling $306.2 million in 1998 versus borrowing funds totaling $82.0 million in 1997. Cash used for dividends paid to shareholders increased by $35.6 million. Treasury stock purchases totaled $677.2 million (13.6 million shares) in 1998 versus $277.0 million (7.9 million shares) in 1997. Stock options exercised provided an additional $65.9 million in 1998 compared to 1997.

The average amount of short-term debt outstanding (excluding the long-term portion of domestic commercial paper) during 1998, 1997 and 1996 was $556.3 million, $520.5 million and $1.52 billion, respectively. Total short-term

debt had a weighted-average interest rate during 1998 of 6.5% and at year-end of 6.4%. The weighted-average interest rate on short-term debt during 1997 was 7.6% and at year-end was 6.1%.

Aggregate domestic commercial paper had a weighted-average interest rate during 1998 and at year-end of 5.6%. In 1997, the weighted-average rate was 5.4% and the rate at year-end was 5.6%. Based upon the amount of commercial paper recorded at April 29, 1998, a variance of 1/8% in the related interest rate would cause annual interest expense to change by approximately $1.8 million. In February 1998, the company issued $250 million of 5.75% five-year notes in the international capital markets. On March 16, 1998, the company filed a shelf registration statement with the Securities and Exchange Commission pursuant to which the company may from time to time issue debt securities of up to $750 million in the aggregate. The first transaction under the shelf registration statement was the issuance of $300 million of 6% ten-year notes in March 1998. The proceeds from both the five-year notes and the ten-year notes were used to repay domestic commercial paper. (See Note 6 to the Consolidated Financial Statements.)

The company's $2.30 billion credit agreement, which expires in September 2001, supports its domestic commercial paper program. As of April 29, 1998, $1.34 billion of domestic commercial paper is classified as long-term debt due to the long-term nature of the supporting credit agreement. At April 30, 1997, $1.35 billion of domestic commercial paper was outstanding and classified as long-term debt.

On September 10, 1997, the company's Board of Directors raised the quarterly dividend on the company's common stock to $0.31½ per share from $0.29 per share, for an indicated annual rate of $1.26 per share. The company paid $452.6 million in dividends to both common and preferred shareholders, an increase of $35.6 million, or 8.5%, over 1997. The dividend rate in effect at the end of each year resulted in a payout ratio of 58.6% in 1998, 143.2% in 1997 and 60.6% in 1996. Excluding the impact of the non-recurring items related to Project Millennia in 1998 and 1997, the payout ratio was 58.6% and 65.9%, respectively.

In 1998, the company repurchased 13.6 million shares of treasury stock, or 3.7% of the amount outstanding at the beginning of Fiscal 1998, at a cost of $677.2 million. As of April 29, 1998, the company had repurchased 1.8 million shares as part of the current 10.0 million share repurchase program, which was authorized by the Board of Directors on September 10, 1997. The previous 15.0 million share repurchase program, which was authorized by the Board of Directors on July 10, 1996, was completed in March 1998. During 1997, 7.9 million shares were repurchased at a cost of $277.0 million. The company may reissue repurchased shares upon the exercise of stock options, conversion of preferred stock and for general corporate purposes.

In Fiscal 1998, the cash requirements for Project Millennia totaled approximately $340 million consisting of spending for severance and exit costs, capital expenditures and non-recurring costs related to the implementation of Project Millennia. In Fiscal 1999, the company expects the cash requirements related to Project Millennia to be approximately $150 million. The company is financing the cash requirements of Project Millennia through operations, proceeds from the sale of non-strategic assets and with short- and long-term borrowings. The remaining cash requirements of Project Millennia will not have a significant impact on the company's liquidity or financial position.

During 1995, the company participated in the formation of a business (the "entity") which purchases a portion of the trade receivables generated by the company. The company sells receivables to Jameson, Inc., a wholly

owned subsidiary, which then sells undivided interests in the receivables to the entity. Outside investors contributed $95.4 million in capital to the entity. The company consolidates the entity, and the capital contributed by outside investors is classified as minority interest ("other long-term liabilities") on the Consolidated Balance Sheets.

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for reporting comprehensive income in financial statements and SFAS No. 131 expands certain reporting and disclosure requirements for segments from current standards. In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits." SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. The company will adopt these statements in Fiscal 1999. The adoption of these statements will not have a financial impact on the company.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The company is not required to adopt the statement until Fiscal 2001. The company is currently evaluating the effect that implementation of the new standard will have on its results of operations and financial position.

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect 1999 results.

The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

MARKET RISK FACTORS

The following discussion about the company's risk-management activities includes "forward-looking" statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The company is exposed to market risks from adverse changes in foreign exchange rates, interest rates and commodity prices. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

Foreign Exchange Rate Sensitivity: The company's cash flow and earnings are subject to fluctuations due to exchange rate variation. Foreign currency risk exists by nature of the company's global operations. The company manufactures and sells its products in a number of locations around the world, and hence foreign currency risk is well diversified.

When appropriate, the company may attempt to limit its exposure to changing foreign exchange rates through both operational and financial market actions. These actions may include entering into forward, option and swap contracts to hedge existing exposures, firm commitments and, potentially, anticipated transactions. The instruments are used to reduce risk

by essentially creating offsetting currency exposures. As of April 29, 1998, the company held contracts for the purpose of hedging certain intercompany cash flows with an aggregate notional amount of approximately $630 million. In addition, the company also held separate contracts in order to hedge purchases of certain raw materials and finished goods and for payments arising from certain foreign currency denominated obligations totaling approximately $280 million. Most of the company's contracts mature within one year of the fiscal year-end. The contracts that effectively meet the risk reduction and correlation criteria, as measured on a currency-by-currency basis are accounted for as hedges. Accordingly, gains and losses are deferred in the cost basis of the underlying transaction. In those circumstances when it is not appropriate to account for the contracts as hedges, any gains and losses from mark-to-market and settlement are recorded in miscellaneous income and expense. At April 29, 1998, unrealized gains and losses on outstanding foreign currency contracts are not material. As of April 29, 1998, the potential gain or loss in the fair value of the company's outstanding foreign currency contracts, assuming a hypothetical 10% fluctuation in the currencies of such contracts, would be approximately $90 million. However, it should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. In addition, this hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Substantially all of the company's foreign affiliates' financial instruments are denominated in their respective functional currencies. Accordingly, exposure to exchange risk on foreign currency financial instruments is not material. (See Note 12 to the Consolidated Financial Statements.)

Interest Rate Sensitivity: The company is exposed to changes in interest rates primarily as a result of its borrowing and investing activities used to maintain liquidity and fund business operations. The company continues to utilize commercial paper to fund working capital requirements in the U.S. and Canada. The company also borrows in different currencies from other sources to meet the borrowing needs of its foreign affiliates. The nature and amount of the company's long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. There are no interest rate swap agreements outstanding at April 29, 1998.

The following table summarizes the company's debt obligations at April 29, 1998. The interest rates represent weighted-average rates, with the period end rate used for the variable rate debt obligations. The fair value of the debt obligations approximated the recorded value as of April 29, 1998. (See Notes 6 and 12 to the Consolidated Financial Statements.)

	Expected Fiscal Year of Maturity						
(Dollars in thousands)	1999	2000	2001	2002	2003	Thereafter	Total
Fixed rate	$ 34,519	$582,538	$18,513	$ 14,464	$457,190	$346,889	$1,454,113
Average interest rate	7.21%	7.01%	7.75%	9.53%	6.28%	6.42%	
Variable rate	$305,107	$ 3,687	–	$1,340,824	–	$ 7,432	$1,657,050
Average interest rate	6.40%	5.75%	–	5.64%	–	5.30%	

Commodity Price Sensitivity: The company is the purchaser of certain commodities such as corn, wheat and soybean meal and oil. The company generally purchases these commodities based upon market prices that are established with the vendor as part of the purchase process. In general, the company does not use significant levels of commodity financial instruments to hedge commodity prices due to a high correlation between the commodity cost and the ultimate selling price of the product. On occasion, the company may enter into commodity future or option contracts, as deemed appropriate, to reduce the effect of price fluctuations on some future manufacturing requirements. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year. As of April 29, 1998, unrealized gains and losses related to commodity contracts held by the company were not material nor would they have been given a hypothetical 10% fluctuation in market prices. It should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. (See Note 12 to the Consolidated Financial Statements.)

YEAR 2000 ISSUE

The Year 2000 issue is the result of date-sensitive computer programs using two digits rather than four to define the applicable year. If not corrected, this could result in system failures or miscalculations leading to significant disruptions in a company's operations.

Beginning in 1996, the company initiated a worldwide information technology review to identify areas impacted by Year 2000 issues. Employees of the company, outside experts and consultants have developed a plan to manage and correct potential problems. As part of the plan, the company has or will replace, upgrade, modify and test existing computer hardware, software and process systems. Additionally, a review of the company's suppliers and customers is being made to ascertain that they will be Year 2000 compliant. The company is proceeding against time lines established in the plan which are designed to bring its systems to the point that they will be operationally effective prior to the Year 2000. While there can be no assurance that the company and its suppliers and customers will fully resolve all Year 2000 issues, neither the estimated cost to become Year 2000 operationally effective nor the outcome of the Year 2000 problem is expected to have a material impact on the company's operations, liquidity or financial position.

STOCK MARKET INFORMATION

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 26, 1998 approximated 64,497. The closing price of the common stock on the New York Stock Exchange composite listing on April 29, 1998 was $53 9/16.

Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	*Low*
1998		
First	**$47 1/2**	**$41 1/4**
Second	**49 3/16**	**41 1/8**
Third	**56 11/16**	**45 1/2**
Fourth	**59 15/16**	**51 7/16**
1997		
First	$34	$29 3/4
Second	36 1/8	31 1/4
Third	41 1/2	35 1/4
Fourth	44 3/8	38 1/8

SEGMENT AND GEOGRAPHIC DATA

The company is engaged principally in one line of business—processed food products—which represents more than 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of United States export sales.

(Dollars in thousands)	*Domestic*	*Foreign*	*Worldwide*	*North America*	*Europe*	*Asia/Pacific*	*Other*
1998							
Sales	**$4,873,710**	**$4,335,574**	**$9,209,284**	**$5,331,408**	**$2,453,180**	**$1,015,885**	**$408,811**
Operating income	**892,625**	**627,705**	**1,520,330**	**938,289**	**395,179**	**132,934**	**53,928**
Operating income excluding restructuring related items*	**860,521**	**647,332**	**1,507,853**	**906,114**	**409,030**	**138,781**	**53,928**
Identifiable assets	**4,075,040**	**3,948,381**	**8,023,421**	**4,522,535**	**2,332,609**	**825,029**	**343,248**
Capital expenditures†	**187,927**	**185,827**	**373,754**	**212,713**	**62,211**	**49,097**	**49,733**
Depreciation and amortization expense	**168,076**	**145,546**	**313,622**	**186,602**	**81,906**	**30,475**	**14,639**
1997							
Sales	$5,169,779	$4,187,228	$9,357,007	$5,586,730	$2,281,364	$1,129,788	$359,125
Operating income	174,280	581,991	756,271	208,585	320,347	166,552	60,787
Operating income excluding restructuring related items‡	704,880	613,309	1,318,189	751,685	374,202	130,515	61,787
Identifiable assets	4,474,740	3,963,047	8,437,787	4,941,301	2,241,006	995,762	259,718
Capital expenditures†	192,682	184,775	377,457	213,574	102,677	31,442	29,764
Depreciation and amortization expense	203,587	136,903	340,490	221,249	81,932	29,944	7,365
1996							
Sales	$5,235,847	$3,876,418	$9,112,265	$5,598,286	$2,133,690	$1,085,747	$294,542
Operating income	739,807	547,765	1,287,572	801,090	336,481	114,239	35,762
Identifiable assets	4,801,790	3,821,901	8,623,691	5,099,632	2,289,919	978,292	255,848
Capital expenditures†	185,874	148,913	334,787	195,517	65,485	40,294	33,491
Depreciation and amortization expense	206,912	136,897	343,809	224,824	72,530	30,674	15,781

** Excludes domestic and foreign charges for non-recurring costs related to the implementation of Project Millennia of $64.5 million and $19.6 million, respectively. Also excludes a domestic gain on the sale of the Ore-Ida foodservice foods business of $96.6 million.*

† Excludes property, plant and equipment acquired through acquisitions.

‡ Excludes domestic and foreign charges for restructuring and related costs of $530.6 million and $116.6 million, respectively. Also excludes gains on the sale of an ice cream business in New Zealand and real estate in the U.K. of $72.1 million and $13.2 million, respectively.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

H.J. Heinz Company and Subsidiaries

Fiscal Year Ended	**April 29, 1998**	April 30, 1997	May 1, 1996
(Dollars in thousands, except per share data)	***(52 weeks)***	*(52 weeks)*	*(52 weeks)*
CONSOLIDATED STATEMENTS OF INCOME:			
Sales	**$9,209,284**	$9,357,007	$9,112,265
Cost of products sold	**5,711,213**	6,385,091	5,775,357
Gross profit	**3,498,071**	2,971,916	3,336,908
Selling, general and administrative expenses	**1,977,741**	2,215,645	2,049,336
Operating income	**1,520,330**	756,271	1,287,572
Interest income	**32,655**	39,359	44,824
Interest expense	**258,616**	274,746	277,411
Other expense, net	**39,388**	41,820	31,324
Income before income taxes	**1,254,981**	479,064	1,023,661
Provision for income taxes	**453,415**	177,193	364,342
Net income	**$ 801,566**	$ 301,871	$ 659,319
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS:			
Amount at beginning of year	**$4,041,285**	$4,156,380	$3,878,988
Net income	**801,566**	301,871	659,319
Cash dividends:			
Common stock	**452,566**	416,923	381,871
Preferred stock	**37**	43	56
Amount at end of year	**$4,390,248**	$4,041,285	$4,156,380
PER COMMON SHARE AMOUNTS:			
Net income – diluted	**$ 2.15**	$ 0.81	$ 1.75
Net income – basic	**$ 2.19**	$ 0.82	$ 1.79
Cash dividends	**$ 1.23½**	$ 1.13½	$ 1.03½
Average common shares outstanding – diluted	**372,952,851**	374,043,705	377,606,606
Average common shares outstanding – basic	**365,982,290**	367,470,850	368,799,645

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

H.J. Heinz Company and Subsidiaries

Assets (Dollars in thousands)	**April 29, 1998**	April 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	**$ 96,300**	$ 156,986
Short-term investments, at cost which approximates market	**3,098**	31,451
Receivables (net of allowances: 1998 – $17,627 and 1997 – $18,934)	**1,071,837**	1,118,874
Inventories:		
Finished goods and work-in-process	**988,322**	1,040,104
Packaging material and ingredients	**340,521**	392,407
	1,328,843	1,432,511
Prepaid expenses	**167,431**	208,246
Other current assets	**19,010**	65,038
Total current assets	**2,686,519**	3,013,106
PROPERTY, PLANT AND EQUIPMENT:		
Land	**51,129**	55,992
Buildings and leasehold improvements	**806,299**	871,417
Equipment, furniture and other	**3,210,695**	3,453,189
	4,068,123	4,380,598
Less accumulated depreciation	**1,673,461**	1,901,378
Total property, plant and equipment, net	**2,394,662**	2,479,220
OTHER NON-CURRENT ASSETS:		
Goodwill (net of amortization: 1998 – $297,868 and 1997 – $259,019)	**1,764,574**	1,803,552
Trademarks (net of amortization: 1998 – $67,791 and 1997 – $57,186)	**416,918**	416,990
Other intangibles (net of amortization: 1998 – $112,768 and 1997 – $106,046)	**194,560**	210,106
Other non-current assets	**566,188**	514,813
Total other non-current assets	**2,942,240**	2,945,461
Total assets	**$8,023,421**	$8,437,787

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (Dollars in thousands)	**April 29, 1998**	April 30, 1997
CURRENT LIABILITIES:		
Short-term debt	**$ 301,028**	$ 589,893
Portion of long-term debt due within one year	**38,598**	573,549
Accounts payable	**978,365**	865,154
Salaries and wages	**66,473**	64,836
Accrued marketing	**163,405**	164,354
Accrued restructuring costs	**94,400**	210,804
Other accrued liabilities	**360,608**	315,662
Income taxes	**161,396**	96,163
Total current liabilities	**2,164,273**	2,880,415
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	**2,768,277**	2,283,993
Deferred income taxes	**291,161**	265,409
Non-pension postretirement benefits	**209,642**	211,500
Other	**373,552**	356,049
Total long-term debt and other liabilities	**3,642,632**	3,116,951
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	**199**	241
Common stock, 431,096,485 shares issued, $.25 par value	**107,774**	107,774
	107,973	108,015
Additional capital	**252,773**	175,811
Retained earnings	**4,390,248**	4,041,285
Cumulative translation adjustments	**(391,148)**	(210,864)
	4,359,846	4,114,247
Less:		
Treasury shares, at cost (67,678,632 shares at April 29, 1998 and 63,912,463 shares at April 30, 1997)	**2,103,979**	1,629,501
Unfunded pension obligation	**24,529**	26,962
Unearned compensation relating to the ESOP	**14,822**	17,363
Total shareholders' equity	**2,216,516**	2,440,421
Total liabilities and shareholders' equity	**$8,023,421**	$8,437,787

CONSOLIDATED STATEMENTS OF CASH FLOWS

H.J. Heinz Company and Subsidiaries

Fiscal Year Ended *(Dollars in thousands)*	**April 29, 1998** ***(52 weeks)***	April 30, 1997 *(52 weeks)*	May 1, 1996 *(52 weeks)*
OPERATING ACTIVITIES:			
Net income	**$ 801,566**	$ 301,871	$ 659,319
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**222,492**	244,388	254,640
Amortization	**91,130**	96,102	89,169
Deferred tax provision (benefit)	**120,875**	(33,450)	135,235
Gain on sale of Ore-Ida frozen foodservice business	**(96,563)**	–	–
Gain on sale of New Zealand ice cream business and U.K. real estate	**–**	(85,282)	–
Provision for restructuring	**–**	647,200	–
Other items, net	**(126,805)**	(42,527)	(82,198)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	**(7,155)**	74,445	(222,894)
Inventories	**47,917**	(5,329)	(102,269)
Prepaid expenses and other current assets	**4,874**	5,094	(14,361)
Accounts payable	**54,345**	18,003	126,596
Accrued liabilities	**(131,400)**	(182,555)	(114,015)
Income taxes	**84,468**	(162,962)	7,866
Cash provided by operating activities	**1,065,744**	874,998	737,088
INVESTING ACTIVITIES:			
Capital expenditures	**(373,754)**	(377,457)	(334,787)
Acquisitions, net of cash acquired	**(142,112)**	(208,383)	(156,006)
Proceeds from divestitures	**494,739**	165,555	82,061
Purchases of short-term investments	**(1,179,024)**	(1,223,884)	(982,824)
Sales and maturities of short-term investments	**1,216,573**	1,233,919	1,050,971
Investment in tax benefits	**–**	139	62,081
Other items, net	**10,740**	23,798	(11,637)
Cash provided by (used for) investing activities	**27,162**	(386,313)	(290,141)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	**555,017**	47,483	4,860
Payments on long-term debt	**(572,905)**	(99,176)	(46,791)
(Payments on) proceeds from commercial paper and short-term borrowings	**(288,346)**	133,732	(39,745)
Dividends	**(452,603)**	(416,966)	(381,927)
Purchase of treasury stock	**(677,193)**	(277,046)	(155,200)
Exercise of stock options	**200,972**	135,082	95,853
Other items, net	**88,457**	47,131	52,149
Cash (used for) financing activities	**(1,146,601)**	(429,760)	(470,801)
Effect of exchange rate changes on cash and cash equivalents	**(6,991)**	7,997	(10,420)
Net (decrease) increase in cash and cash equivalents	**(60,686)**	66,922	(34,274)
Cash and cash equivalents at beginning of year	**156,986**	90,064	124,338
Cash and cash equivalents at end of year	**$ 96,300**	$ 156,986	$ 90,064

See Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: H.J. Heinz Company (the "company") operates on a 52- or 53-week fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended April 29, 1998, April 30, 1997 and May 1, 1996.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions were eliminated. Certain prior-year amounts have been reclassified in order to conform with the 1998 presentation.

Use of Estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Intangibles: Goodwill, trademarks and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding 40 years. The company regularly reviews the individual

components of the balances by evaluating the future cash flows of the businesses to determine the recoverability of the assets and recognizes, on a current basis, any diminution in value.

Long-Lived Assets: On May 2, 1996, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The implementation of this standard did not have a material effect on results of operations or financial position.

Revenue Recognition: The company generally recognizes revenue upon shipment of goods to customers or upon performance of services. However, in certain overseas countries, revenue is recognized upon receipt of the product by the customer.

Advertising Expenses: Advertising costs are generally expensed in the year in which the advertising first takes place.

Income Taxes: Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practicable. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes. In cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

Stock-Based Employee Compensation Plans: Stock-based compensation is accounted for by using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Financial Instruments: The company uses derivative financial instruments for the purpose of hedging currency, price and interest rate exposures which exist as part of ongoing business operations. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

□ *Interest Rate Swap Agreements:* The company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. Amounts paid or received on interest rate swap agreements are deferred and recognized as adjustments to interest expense. Gains and losses realized upon the settlement of such contracts are deferred and amortized to interest expense over the remaining term of the debt instrument or are recognized immediately if the underlying instrument is settled.

□ *Foreign Currency Contracts:* The company enters into forward, option and swap contracts to hedge transactions denominated in foreign currencies in order to reduce the currency risk associated with fluctuating exchange rates. Such contracts are used primarily to hedge certain intercompany cash flows, purchases of certain raw materials and finished goods and for payments

arising from certain foreign currency denominated obligations. Realized and unrealized gains and losses from instruments qualifying as hedges are deferred as part of the cost basis of the underlying transaction. Realized and unrealized gains and losses from foreign currency contracts used as economic hedges but not qualifying for hedge accounting are recognized currently in miscellaneous income and expense.

☐ *Commodity Contracts:* In connection with purchasing certain commodities for future manufacturing requirements, the company enters into commodities futures and option contracts, as deemed appropriate, to reduce the effect of price fluctuations. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year.

The cash flows related to the above financial instruments are classified in the Statements of Cash Flows in a manner consistent with those of the transactions being hedged.

Earnings Per Share: In the third quarter of Fiscal 1998, the company adopted SFAS No. 128, "Earnings Per Share," which requires the disclosure of both diluted and basic earnings per share. Previously reported earnings per share amounts have been restated, as necessary, to conform to Statement No. 128 requirements. All earnings per share amounts are presented on a diluted basis unless otherwise noted.

Business Segment Information: Information concerning business segment and geographic data is in Management's Discussion and Analysis.

Recently Issued Accounting Standards: In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for reporting comprehensive income in financial statements and SFAS No. 131 expands certain reporting and disclosure requirements for segments from current standards. In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. The company will adopt these statements in Fiscal 1999. The adoption of these statements will not have a financial impact on the company.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The company is not required to adopt the statement until Fiscal 2001. The company is currently evaluating the effect that implementation of the new standard will have on its results of operations and financial position.

2. ACQUISITIONS

All of the following acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward.

Fiscal 1998: The company acquired businesses for a total of $142.1 million. The preliminary allocations of the purchase price resulted in goodwill of $71.4 million and trademarks and other intangible assets of $27.2 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

On June 30, 1997, the company acquired John West Foods Limited from Unilever. John West Foods Limited is the leading brand of canned tuna and fish in the United Kingdom. Based in Liverpool, John West Foods Limited sells its canned fish products throughout Continental Europe and in a number of other international markets. (John West operations in Australia, New Zealand and South Africa were not included in the transaction.) During Fiscal 1998, the company also made other acquisitions, primarily in the Asia/Pacific region, Europe and South Africa.

Fiscal 1997: The company acquired businesses for a total of $222.6 million, including notes to sellers of $14.2 million. The allocations of purchase price resulted in goodwill of $144.9 million and trademarks and other intangible assets of $26.9 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

On November 4, 1996, the company acquired the assets of the canned beans and pasta business of Nestlé Canada Inc., together with a two-year license to use the Libby's brand. Under the agreement, the company also acquired the trademarks Deep-Browned Beans, Alpha-Getti and Zoodles, among others.

On September 23, 1996, the company acquired substantially all of the pet food businesses of Martin Feed Mills Limited of Elmira, Ontario. Martin produces and markets cat and dog food throughout Canada and also exports to Japan and Europe. Martin sells pet food under the Techni-Cal brand and markets products under the Medi-Cal label through veterinary offices and clinics.

On July 10, 1996, the company acquired Southern Country Foods Limited in Australia, a producer of canned corned beef and meals. During Fiscal 1997, the company also made other smaller acquisitions.

Fiscal 1996: The company acquired businesses for a total of $193.4 million, including notes to sellers of $37.4 million. The allocations of purchase price resulted in goodwill of $128.1 million and trademarks and other intangibles of $6.6 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

On March 28, 1996, the company acquired the Nature's Recipe business, which markets a brand of premium specialty pet foods.

On March 6, 1996, the company acquired Earth's Best, Inc., which produces premium, organic baby foods and complements the company's range of infant cereals, juices and strained and junior foods.

The company acquired a majority interest in PMV/Zabreh, a producer of infant formulas and dairy products located in Zabreh, Moravia, Czech Republic.

The company increased its investment to 97% of Kecskeméti Konzervgyár RT, which produces jarred baby foods and canned vegetable products in Kecskemet, Hungary.

Other small acquisitions were also made during Fiscal 1996, including Fattoria Scaldasole S.p.A., which is a processor of organic foods in Italy; Alimentos Pilar S.A. of Argentina, a producer of pet and animal feed; the Craig's brand of jams and dressings in New Zealand; the Mareblu brand of canned tuna, which is sold exclusively in Italy; a majority interest in Indian Ocean Tuna Ltd., located in the Seychelles; and Britwest Ltd., which markets single-serve condiments, beverages and sauces in Britain and France.

Pro forma results of the company, assuming all of the above acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

3. DIVESTITURES

On June 30, 1997, the company completed the sale of its Ore-Ida frozen foodservice foods business to McCain Foods Limited of New Brunswick, Canada. The transaction resulted in a pretax gain of approximately $96.6 million ($0.14 per share), and was recorded as an offset to selling, general and administrative expenses. The transaction included the sale of the company's Ore-Ida appetizer, pasta and potato foodservice business and five of the Ore-Ida plants that manufacture the products. The Ore-Ida frozen foodservice foods business contributed approximately $525 million in net sales for Fiscal 1997.

In the fourth quarter of Fiscal 1997, the company sold its New Zealand ice cream business to Peters & Brownes Limited of Perth, Australia for approximately $150 million. The pretax gain on the divestiture totaled $72.1 million, or $0.12 per share.

Fiscal 1996 divestitures included: an overseas sweetener business, the *Weight Watchers Magazine* and two regional dry pet food product lines.

Pro forma results of the company, assuming all of the above divestitures had been made at the beginning of each period presented, would not be materially different from the results reported.

4. RESTRUCTURING CHARGES

Charges related to the company's reorganization and restructuring program, Project Millennia, were recorded in Fiscal 1997 and were recognized to reflect the closure or divestiture of 25 facilities throughout the world, the net reduction of the global workforce by approximately 2,500 (excluding the businesses or facilities to be sold), and other initiatives involving the exit of certain underperforming businesses and product lines.

Restructuring and related costs recorded in Fiscal 1997 totaled $647.2 million pretax or $1.09 per share. Pretax charges of $477.8 million were classified as cost of products sold and $169.4 million as selling, general and administrative expenses.

The results for Fiscal 1998 included non-recurring costs related to the implementation of Project Millennia of $84.1 million pretax ($0.14 per share). Pretax charges of $35.7 million were classified as cost of products sold and $48.4 million as selling, general and administrative expenses. These non-recurring costs consist primarily of relocation, training, consulting and start-up costs.

The major components of the Fiscal 1997 charges and the remaining accrual balances as of April 29, 1998 and April 30, 1997 were as follows:

(Dollars in millions)	*Employee Termination and Severance Costs*	*Exit Costs*	*Non-Cash Asset Write-downs*	*Total*
Initial charge – 1997	$164.5	$158.4	$ 324.3	$ 647.2
Amounts utilized – 1997	(32.1)*	(80.0)	(324.3)	(436.4)
Accrued restructuring costs – April 30, 1997	**132.4**	**78.4**	–	**210.8**
Amounts utilized – 1998	**(91.9)**	**(24.5)**	–	**(116.4)**
Accrued restructuring costs – April 29, 1998	**$ 40.5**	**$ 53.9**	–	**$ 94.4**

** Includes $18.9 million in non-cash charges resulting from termination benefit programs.*

Asset write-downs consisted primarily of fixed asset and other long-term asset impairments that were recorded as a direct result of the company's decision to exit businesses or facilities ($206.8 million). Such assets were written down based on management's estimate of fair value. Write-downs were also recognized for estimated losses from disposals of inventories, packaging materials and other assets related to product line rationalizations and process changes as a direct result of the company's decision to exit businesses or facilities ($117.5 million).

5. INCOME TAXES

The following table summarizes the provision/(benefit) for U.S. federal and U.S. possessions, state and foreign taxes on income.

(Dollars in thousands)	**1998**	1997	1996
Current:			
U.S. federal and U.S. possessions	**$214,866**	$ 67,274	$106,848
State	**17,667**	6,458	11,475
Foreign	**100,007**	136,911	110,784
	332,540	210,643	229,107
Deferred:			
U.S. federal and U.S. possessions	**103,630**	(38,988)	87,239
State	**1,536**	(10,763)	10,408
Foreign	**15,709**	16,301	37,588
	120,875	(33,450)	135,235
Total tax provision	**$453,415**	$177,193	$364,342

In 1998, reduced tax rates enacted in the United Kingdom and Italy decreased the tax provision by $21.6 million, representing the impact of the reduced tax rates on net deferred taxes payable as of the dates of enactment. In 1996, the tax provision was reduced by $24.9 million due to the recognition of foreign tax losses. In addition, tax benefits resulting from adjustments to the beginning-of-the-year valuation allowance, due to a change in circumstances, to recognize the realizability of deferred tax assets in future years totaled $12.5 million in 1996. Tax expense resulting from allocating certain tax benefits directly to additional capital totaled $77.7 million in 1998, $33.8 million in 1997 and $41.7 million in 1996.

The components of income before income taxes consist of the following:

(Dollars in thousands)	1998	1997	1996
Domestic	**$ 742,665**	$ (47,219)	$ 500,034
Foreign	**512,316**	526,283	523,627
	$1,254,981	$479,064	$1,023,661

The differences between the U.S. federal statutory tax rate and the company's consolidated effective tax rate are as follows:

	1998	1997	1996
U.S. federal statutory tax rate	**35.0%**	35.0%	35.0%
Tax on income of foreign subsidiaries	**(0.7)**	5.6	2.2
State income taxes (net of federal benefit)	**1.1**	(0.2)	1.8
Tax credits	**0.2**	(2.1)	(0.2)
Earnings repatriation	**(0.2)**	5.5	1.3
Recognition of foreign tax losses	**–**	(0.7)	(2.4)
Tax on income of U.S. possessions subsidiaries	**(1.3)**	(2.8)	(1.7)
Other	**2.0**	(3.3)	(0.4)
Effective tax rate	**36.1%**	37.0%	35.6%

The deferred tax (assets) and deferred tax liabilities recorded on the balance sheets as of April 29, 1998 and April 30, 1997 are as follows:

(Dollars in thousands)	1998	1997
Depreciation/amortization	**$ 443,448**	$ 448,327
Benefit plans	**71,508**	73,081
Other	**100,676**	87,223
	615,632	608,631
Provision for estimated expenses	**(106,325)**	(188,220)
Operating loss carryforwards	**(50,317)**	(51,685)
Benefit plans	**(111,039)**	(100,327)
Promotions and advertising	**(31,829)**	(12,877)
Other	**(119,771)**	(103,575)
	(419,281)	(456,684)
Valuation allowance	**20,992**	5,459
Net deferred tax liabilities	**$ 217,343**	$ 157,406

At the end of 1998, net operating loss carryforwards totaled $116.9 million. Of that amount, $69.7 million expire through 2010; the other $47.2 million do not expire. Foreign tax credit carryforwards total $13.4 million and expire through 2003.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1991.

Undistributed earnings of foreign subsidiaries considered to be reinvested permanently amounted to $1.78 billion at April 29, 1998.

The 1998 net change in the valuation allowance for deferred tax assets was an increase of $15.5 million.

6. DEBT

Short-Term (Dollars in thousands)	**1998**	1997
Commercial paper (foreign)	**$ 79,841**	$ 97,008
Bank and other borrowings	**221,187**	492,885
	$301,028	$589,893

Total short-term debt had a weighted-average interest rate during 1998 of 6.5% and at year-end of 6.4%. The weighted-average interest rate on short-term debt during 1997 was 7.6% and at year-end was 6.1%.

The company maintains a $2.30 billion credit agreement that supports its domestic commercial paper program. The credit agreement expires in September 2001. In addition, the company had $832.8 million of other foreign lines of credit available at year-end, principally for overdraft protection.

As of April 29, 1998 and April 30, 1997, the company had $1.34 billion and $1.35 billion, respectively, of domestic commercial paper outstanding. Due to the long-term nature of the amended credit agreement, all of the outstanding domestic commercial paper has been classified as long-term debt as of April 29, 1998 and April 30, 1997. Aggregate domestic commercial paper had a weighted-average interest rate during 1998 and at year-end of 5.6%. In 1997, the weighted-average rate was 5.4% and the rate at year-end was 5.6%.

Long-Term (Dollars in thousands)	*Range of Interest*	*Maturity (Fiscal Year)*	**1998**	1997
United States Dollars:				
Commercial paper	Variable	2002	**$1,337,574**	$1,346,779
Senior unsecured notes	6.00–6.88%	2000–2008	**797,791**	749,681
Eurodollar bonds	5.75–7.50	2000–2003	**498,944**	551,423
Revenue bonds	4.00–7.70	1999–2027	**18,342**	16,121
Promissory notes	4.00–10.00	1999–2005	**47,157**	49,220
Other	6.35	1999–2006	**6,337**	7,072
			2,706,145	2,720,296
Foreign Currencies (U.S. Dollar Equivalents):				
Promissory notes:				
Pounds sterling	8.85%	1999–2006	**27,272**	41,260
Italian lire	3.90–12.55	1999–2008	**23,751**	28,209
Australian dollar	5.21	1999–2002	**19,066**	28,323
Other	5.19–24.00	1999–2022	**30,641**	39,454
			100,730	137,246
Total long-term debt			**2,806,875**	2,857,542
Less portion due within one year			**38,598**	573,549
			$2,768,277	$2,283,993

The amount of long-term debt that matures in each of the four years succeeding 1999 is: $586.2 million in 2000, $18.5 million in 2001, $1,355.3 million in 2002 and $457.2 million in 2003.

In February 1998, the company issued $250 million of 5.75% five-year notes in the international capital markets. On March 16, 1998, the company filed a shelf registration statement with the Securities and Exchange Commission pursuant to which the company may from time to time issue debt securities of up to $750 million in the aggregate. The first transaction under the shelf registration statement was the issuance of $300 million of 6% ten-year notes in March 1998. The proceeds from both the five-year notes and the ten-year notes were used to repay domestic commercial paper.

7. SHAREHOLDERS' EQUITY

Capital Stock: The preferred stock outstanding is convertible at a rate of one share of preferred stock into 13.5 shares of common stock. The company can redeem the stock at $28.50 per share.

On April 29, 1998, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Employee Stock Ownership Plan (ESOP): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participants' contributions, subject to certain limitations.

To finance the plan, the ESOP borrowed $50.0 million directly from the company in 1990. The loan is in the form of a 15-year variable-rate interest-bearing note (an average of 5.6%, 5.6% and 5.5% for 1998, 1997 and 1996, respectively) and is included in the company's Consolidated Balance Sheets as unearned compensation. The proceeds of the note were used to purchase 2,366,862 shares of treasury stock from the company at approximately $21.13 per share.

The stock held by the ESOP is released for allocation to the participants' accounts over the term of the loan as company contributions to the ESOP are made. The company contributions are reported as compensation and interest expense. Compensation expense related to the ESOP for 1998, 1997 and 1996 was $0.2 million, $3.0 million and $2.3 million, respectively. Interest expense was $0.9 million, $1.1 million and $1.5 million for 1998, 1997 and 1996, respectively. The company's contributions to the ESOP and the dividends on the company stock held by the ESOP are used to repay loan interest and principal.

The dividends on the company stock held by the ESOP were $2.3 million, $2.3 million and $2.1 million in 1998, 1997 and 1996, respectively.

The ESOP shares outstanding at April 29, 1998 and April 30, 1997, respectively, were as follows: unallocated 593,095 and 711,725; committed-to-be-released 32,329 and 61,724; and allocated 1,124,475 and 1,156,236. Shares held by the ESOP are considered outstanding for purposes of calculating the company's net income per share.

Cumulative Translation Adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of financial statements of foreign subsidiaries into U.S. dollars. The reduction in shareholders' equity related to the translation component increased $180.3 million in 1998, increased $55.1 million in 1997 and decreased $1.4 million in 1996. During 1997, a gain of $13.8 million was transferred from the cumulative translation component of shareholders' equity and included in the determination of net income as a component of the $72.1 million gain recognized as a result of the liquidation of the company's investment in its New Zealand ice cream business. (See Note 3 to the Consolidated Financial Statements.)

Unfunded Pension Obligation: An adjustment for unfunded foreign pension obligations in excess of unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity. (See Note 10 to the Consolidated Financial Statements.)

	Cumulative Preferred Stock	Common Stock				
	Third, $1.70 First Series $10 Par	Issued		In Treasury		Additional Capital
(Amounts in thousands)	Amount	Amount	Shares	Amount	Shares	Amount
Balance May 3, 1995	$358	$107,774	431,096	$1,450,724	65,587	$121,291
Reacquired	–	–	–	155,200	4,806	–
Conversion of preferred into common stock	(87)	–	–	(2,674)	(117)	(2,587)
Stock options exercised, net of shares tendered for payment	–	–	–	(101,751)	(7,747)	35,797*
Other, net	–	–	–	(633)	(31)	101
Balance May 1, 1996	$271	$107,774	431,096	$1,500,866	62,498	$154,602
Reacquired	–	–	–	277,046	7,939	–
Conversion of preferred into common stock	(30)	–	–	(963)	(41)	(932)
Stock options exercised, net of shares tendered for payment	–	–	–	(147,071)	(6,466)	21,946*
Other, net	–	–	–	(377)	(18)	195
Balance April 30, 1997	**$241**	**$107,774**	**431,096**	**$1,629,501**	**63,912**	**$175,811**
Reacquired	**–**	**–**	**–**	**677,193**	**13,559**	**–**
Conversion of preferred into common stock	**(42)**	**–**	**–**	**(1,364)**	**(56)**	**(1,322)**
Stock options exercised, net of shares tendered for payment	**–**	**–**	**–**	**(200,860)**	**(9,717)**	**77,830***
Other, net	**–**	**–**	**–**	**(491)**	**(19)**	**454**
Balance April 29, 1998	**$199**	**$107,774**	**431,096**	**$2,103,979**	**67,679**	**$252,773**
Authorized Shares— April 29, 1998	**20**		**600,000**			

** Includes income tax benefit resulting from exercised stock options.*

8. SUPPLEMENTAL CASH FLOWS INFORMATION

(Dollars in thousands)	**1998**	1997	1996
Cash Paid During The Year For:			
Interest	**$300,173**	$310,146	$308,564
Income taxes	**188,567**	295,008	143,646
Details of Acquisitions:			
Fair value of assets	**$200,406**	$264,560	$269,907
Liabilities*	**47,912**	56,168	113,697
Cash paid	**152,494**	208,392	156,210
Less cash acquired	**10,382**	9	204
Net cash paid for acquisitions	**$142,112**	$208,383	$156,006

** Includes notes to sellers of $14.2 million and $37.4 million in 1997 and 1996, respectively.*

9. EMPLOYEES' STOCK OPTION PLANS AND MANAGEMENT INCENTIVE PLANS

Under the company's stock option plans, officers and other key employees may be granted options to purchase shares of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant. Generally, options are exercisable beginning from one to three years after date of grant and have a maximum term of 10 years. Beginning in Fiscal 1998, in order to place greater emphasis on creation of shareholder value, performance-accelerated stock options were granted to certain key executives. These options vest eight years after the grant date, subject to acceleration if predetermined share price goals are achieved.

The company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the company's stock option plans. If the company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in thousands, except per share data)	**1998**	1997	1996
Pro forma net income	**$790,325**	$295,605	$658,798
Pro forma diluted net income per common share	**$ 2.12**	$ 0.79	$ 1.74
Pro forma basic net income per common share	**$ 2.16**	$ 0.80	$ 1.79

The pro forma effect on net income for 1998, 1997 and 1996 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The weighted-average fair value of options granted was $12.45 per share in 1998, $6.94 per share in 1997 and $6.27 per share in 1996.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	1998	1997	1996
Dividend yield	**2.5%**	3.3%	3.3%
Volatility	**20.0%**	17.5%	17.8%
Risk-free interest rate	**5.8%**	6.3%	6.0%
Expected term (years)	**5.5**	5.5	5.5

Data regarding the company's stock option plans follows:

	Shares	Weighted-Average Exercise Price Per Share
Shares under option May 3, 1995	42,170,931	$21.52
Options granted	2,154,100	32.11
Options exercised	(11,713,653)	18.40
Options surrendered	(115,500)	25.26
Shares under option May 1, 1996	32,495,878	$23.33
Options granted	7,508,500	34.68
Options exercised	(6,466,030)	20.92
Options surrendered	(463,500)	25.87
Shares under option April 30, 1997	**33,074,848**	**$26.34**
Options granted	**2,990,000**	**53.76**
Options exercised	**(10,283,073)**	**22.40**
Options surrendered	**(181,000)**	**34.22**
Shares under option April 29, 1998	**25,600,775**	**$31.07**
Options exercisable at:		
May 1, 1996	12,252,228	$21.53
April 30, 1997	18,473,073	22.53
April 29, 1998	**14,397,175**	**24.70**

The following summarizes information about shares under option in the respective exercise price ranges at April 29, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Price Per Share	Number Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
$13.67–28.83	**13,331,675**	**5.22**	**$23.86**	**13,301,675**	**$23.85**
29.08–43.50	**9,345,100**	**7.94**	**34.18**	**1,033,500**	**34.36**
44.38–58.56	**2,924,000**	**9.71**	**54.01**	**62,000**	**45.29**
	25,600,775			**14,397,175**	

The shares authorized but not granted under the company's stock option plans were 8,507,235 at April 29, 1998 and 11,316,235 at April 30, 1997. Common stock reserved for options totaled 34,108,010 at April 29, 1998 and 44,391,083 at April 30, 1997.

Effective June 12, 1996, the Board of Directors adopted and the shareholders approved a new stock option plan providing for the grant of up to 15.0 million shares of common stock at any time over the next 10 years. In general, the terms of the 1996 plan are similar to the company's other stock option plans.

The company's management incentive plan covers officers and other key employees. Participants may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Compensation under the management incentive plans was approximately $46 million in 1998, $37 million in 1997 and $37 million in 1996.

10. RETIREMENT PLANS

The company maintains retirement plans for the majority of its employees. Current defined benefit plans are provided primarily for domestic union and foreign employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equities and fixed-income securities. The company's funding policy for domestic defined benefit plans is to contribute annually not less than the ERISA minimum funding standards nor more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign defined benefit plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

Effective in 1993, the company discontinued future benefit accruals under the defined benefit plans for domestic non-union hourly and salaried employees and expanded its defined contribution plans for these same employees.

The company maintains defined contribution plans for the majority of its domestic non-union hourly and salaried employees. Defined contribution benefits are provided through company contributions that are a percentage of the participant's pay based on age, with the contribution rate increasing with age, and matching contributions based on a percentage of the participant's contributions to the 401(k) portion of the plan. (The company's matching contributions for salaried employees are provided under the ESOP. See Note 7 to the Consolidated Financial Statements.) In addition, certain non-union hourly employees receive supplemental contributions, which are paid at the discretion of the company.

Total pension cost consisted of the following:

(Dollars in thousands)	**1998**	1997	1996
Defined Benefit Plans:			
Benefits earned during the year	**$ 21,038**	$ 15,583	$ 13,675
Interest cost on projected benefit obligation	**83,005**	81,620	74,623
Actual return on plan assets	**(314,392)**	(149,513)	(200,592)
Net amortization and deferral	**211,279**	64,499	117,461
	930	12,189	5,167
Defined contribution plans (excluding the ESOP)	**23,571**	23,658	25,946
Total pension cost	**$ 24,501**	$ 35,847	$ 31,113

The following table sets forth the combined funded status of the company's principal defined benefit plans at April 29, 1998 and April 30, 1997.

	Plans for Which Assets Exceed Accumulated Benefits		*Plans for Which Accumulated Benefits Exceed Assets*	
(Dollars in thousands)	**1998**	1997	**1998**	1997
Actuarial present value of:				
Accumulated benefit obligation, primarily vested	**$ 949,908**	$ 814,721	**$236,852**	$193,114
Additional obligation for projected compensation increases	**46,323**	32,850	**37,438**	36,293
Projected benefit obligation	**996,231**	847,571	**274,290**	229,407
Plan assets, at fair value	**1,261,015**	1,079,148	**183,065**	149,868
Projected benefit obligation less than (in excess of) assets	**264,784**	231,577	**(91,225)**	(79,539)
Unamortized prior service cost	**81,442**	81,879	**2,180**	5,067
Unamortized actuarial (gains) losses, net	**(80,119)**	(70,324)	**78,631**	66,001
Unamortized net (assets) at date of adoption	**(14,798)**	(18,479)	**(326)**	(828)
Additional minimum liability	**–**	–	**(43,048)**	(44,870)
Prepaid (accrued) pension costs	**$ 251,309**	$ 224,653	**$ (53,788)**	$ (54,169)

The adjustment for unfunded foreign pension obligations in excess of the unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity of $24.5 million and $27.0 million in 1998 and 1997, respectively. In 1998, the remaining portion of the unfunded obligation was recorded as other long-term assets and deferred taxes in the amounts of $4.1 million and $14.4 million, respectively. In 1997, the remaining portion of the unfunded obligation was recorded as other long-term assets and deferred taxes in the amounts of $2.1 million and $15.8 million, respectively.

The weighted-average rates used for the years ended April 29, 1998, April 30, 1997 and May 1, 1996 in determining the net pension costs and projected benefit obligations for defined benefit plans were as follows:

	1998	1997	1996
Expected rate of return on plan assets	**9.6%**	9.6%	9.4%
Discount rate	**6.9%**	8.2%	8.4%
Compensation increase rate	**4.9%**	5.2%	5.3%

Assumptions for foreign defined benefit plans are developed on a basis consistent with those for U.S. plans, adjusted for prevailing economic conditions.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The company and certain of its subsidiaries provide health care and life insurance benefits for retired employees and their eligible dependents. Certain of the company's U.S. and Canadian employees may become eligible for such benefits. In general, postretirement medical coverage is provided for eligible non-union hourly and salaried employees with at least 10 years of service rendered after the age of 45 and certain eligible union employees who retire with an immediate pension benefit. Effective May 1, 1996, retired employees share in the cost of the plan at a rate of 50%. The company currently does not fund these benefit arrangements and may modify plan provisions or terminate plans at its discretion.

Net postretirement costs consisted of the following:

(Dollars in thousands)	1998	1997	1996
Postretirement benefits earned during the year	**$ 3,339**	$ 3,864	$ 2,736
Interest cost on accumulated postretirement benefit obligation	**11,280**	11,694	13,350
Net amortization and deferral	**(8,212)**	(7,014)	(6,583)
Net postretirement benefit costs	**$ 6,407**	$ 8,544	$ 9,503

The following table sets forth the combined status of the company's postretirement benefit plans at April 29, 1998 and April 30, 1997.

(Dollars in thousands)	1998	1997
Accumulated postretirement benefit obligation:		
Retirees and spouses	**$121,897**	$104,300
Employees currently eligible to retire	**14,853**	14,790
Employees not yet eligible to retire	**21,225**	24,787
Total accumulated postretirement benefit obligation	**157,975**	143,877
Unamortized prior service cost	**6,418**	15,346
Unrecognized net gain	**53,849**	62,277
Accrued postretirement benefit obligation	**218,242**	221,500
Current portion, included in other accrued liabilities	**8,600**	10,000
Non-pension postretirement benefits	**$209,642**	$211,500

The weighted-average discount rate used in the calculation of the accumulated postretirement benefit obligation and the net postretirement benefit cost was 6.9% in 1998, 8.0% in 1997 and 8.1% in 1996. The assumed annual composite rate of increase in the per capita cost of company-provided health care benefits begins at 8.3% for 1998, gradually decreases to 4.4% by 2007, and remains at that level thereafter. A 1% increase in these health care cost trend rates would cause the accumulated postretirement obligation to increase by $14.0 million, and the aggregate of the service and interest components of 1998 net postretirement benefit costs to increase by $1.6 million.

12. FINANCIAL INSTRUMENTS

Foreign Currency Contracts: As of April 29, 1998 and April 30, 1997, the company held currency swap contracts with an aggregate notional amount of approximately $350 million and $400 million, respectively. As of April 29, 1998, these contracts have maturity dates extending from 1999 through 2002. The company also had separate contracts to purchase certain foreign currencies as of April 29, 1998 and April 30, 1997 totaling approximately $560 million and $600 million, respectively, most of which mature within one year of the respective fiscal year-end. Net unrealized gains and losses associated with the company's foreign currency contracts as of April 29, 1998 and April 30, 1997 were not material.

Commodity Contracts: As of April 29, 1998 and April 30, 1997, the notional values and unrealized gains or losses related to commodity contracts held by the company were not material.

Fair Value of Financial Instruments: The company's significant financial instruments include cash and cash equivalents, short- and long-term investments, short- and long-term debt, currency exchange agreements and guarantees.

In evaluating the fair value of significant financial instruments, the company generally uses quoted market prices of the same or similar instruments or calculates an estimated fair value on a discounted cash flow basis using the rates available for instruments with the same remaining maturities. As of April 29, 1998 and April 30, 1997, the fair value of financial instruments held by the company approximated the recorded value.

Concentrations of Credit Risk: Counterparties to currency exchange and interest rate derivatives consist of large major international financial institutions. The company continually monitors its positions and the credit ratings of the counterparties involved and, by policy, limits the amount of credit exposure to any one party. While the company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers, generally short payment terms, and their dispersion across geographic areas.

13. NET INCOME PER COMMON SHARE

In the third quarter of Fiscal 1998, the company adopted SFAS No. 128, "Earnings Per Share," which requires the disclosure of both diluted and basic earnings per share. The following table sets forth the computation of basic and diluted earnings per share in accordance with the provisions of Statement No. 128. Previously reported earnings per share amounts have been restated, as necessary, to conform to Statement No. 128 requirements.

	Fiscal Year Ended		
(In thousands, except per share data)	**1998**	1997	1996
Net income per share – basic:			
Net income	**$801,566**	$301,871	$659,319
Preferred dividends	**37**	43	56
Net income applicable to common stock	**$801,529**	$301,828	$659,263
Average common shares outstanding – basic	**365,982**	367,471	368,800
Net income per share – basic	**$ 2.19**	$ 0.82	$ 1.79
Net income per share – diluted:			
Net income	**$801,566**	$301,871	$659,319
Average common shares outstanding	**365,982**	367,471	368,800
Effect of dilutive securities:			
Convertible preferred stock	**297**	340	451
Stock options	**6,674**	6,233	8,356
Average common shares outstanding – diluted	**372,953**	374,044	377,607
Net income per share – diluted	**$ 2.15**	$ 0.81	$ 1.75

14. QUARTERLY RESULTS (UNAUDITED)

	1998				
(Dollars in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*	*Total*
Sales	**$2,233,270**	**$2,264,082**	**$2,236,034**	**$2,475,898**	**$9,209,284**
Gross profit	**825,067**	**854,668**	**856,816**	**961,520**	**3,498,071**
Net income	**243,301**	**188,866**	**188,156**	**181,243**	**801,566**
Per Share Amounts:					
Net income – diluted	**$ 0.65**	**$ 0.51**	**$ 0.50**	**$ 0.49**	**$ 2.15**
Net income – basic	**0.66**	**0.52**	**0.51**	**0.50**	**2.19**
Dividends	**0.29**	**0.31½**	**0.31½**	**0.31½**	**1.23½**

	1997				
(Dollars in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*	*Total*
Sales	$2,208,760	$2,394,058	$2,307,538	$2,446,651	$9,357,007
Gross profit	795,639	847,504	848,289	480,484	2,971,916
Net income (loss)	179,530	177,520	174,387	(229,566)	301,871
Per Share Amounts:					
Net income (loss) – diluted	$ 0.48	$ 0.47	$ 0.47	$ (0.62)	$ 0.81
Net income (loss) – basic	0.49	0.48	0.47	(0.62)	0.82
Dividends	0.26½	0.29	0.29	0.29	1.13½

First-quarter 1998 results include a gain on the sale of the company's Ore-Ida frozen foodservice foods business to McCain Foods Limited ($0.14 per share). (See Note 3 to the Consolidated Financial Statements.)

The implementation of Project Millennia resulted in non-recurring costs of $0.02 per share in the first quarter, $0.03 per share in the second quarter, $0.05 per share in the third quarter and $0.04 per share in the fourth quarter of Fiscal 1998.

Third-quarter 1997 results include restructuring and related costs ($0.03 per share), partially offset by a gain on the sale of real estate in the U.K. ($0.02 per share).

Fourth-quarter 1997 results include restructuring and related costs ($1.06 per share). (See Note 4 to the Consolidated Financial Statements.) These charges were partially offset by a gain on the sale of the New Zealand ice cream business ($0.12 per share). (See Note 3 to the Consolidated Financial Statements.)

15. COMMITMENTS AND CONTINGENCIES

Legal Matters: On December 31, 1992, a food wholesale distributor filed suit against the company and its principal competitors in the U.S. baby food industry. Subsequent to that date, several similar lawsuits were filed in the same court and have been consolidated into a class action suit. The complaints, each of which seeks an injunction and unspecified treble money damages, allege a conspiracy to fix, maintain and stabilize the prices of baby food. Related suits have also been filed in Alabama and California state courts, seeking to represent a class of indirect purchasers of baby food in the respective states. The court has granted summary judgment to the defendants and entered an order dismissing the complaint with prejudice. The plaintiffs have appealed. The company believes all of the suits are without merit and will defend itself vigorously against them. Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. The above-mentioned suits and claims, when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the company's consolidated financial position, results of operations or liquidity.

Lease Commitments: Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $98.3 million in 1998, $93.2 million in 1997 and $87.1 million in 1996. Future lease payments for non-cancellable operating leases as of April 29, 1998 totaled $253.6 million (1999–$51.4 million, 2000–$43.7 million, 2001–$39.1 million, 2002–$32.1 million, 2003–$23.3 million and thereafter–$64.0 million).

16. ADVERTISING COSTS

Advertising costs for fiscal years 1998, 1997 and 1996 were $363.1 million, $319.0 million and $334.0 million, respectively.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management of H.J. Heinz Company is responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
H.J. Heinz Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of H.J. Heinz Company and Subsidiaries at April 29, 1998 and April 30, 1997, and the results of their operations and their cash flows for each of the three years in the period ended April 29, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

600 Grant Street
Pittsburgh, PA
June 15, 1998

ELEVEN-YEAR SUMMARY OF OPERATIONS AND OTHER RELATED DATA

H.J. Heinz Company and Subsidiaries

(Dollars in thousands, except per share data)	**1998**	1997	1996	1995
SUMMARY OF OPERATIONS:				
Sales	**$9,209,284**	$9,357,007	$9,112,265	$8,086,794
Cost of products sold	**5,711,213**	6,385,091	5,775,357	5,119,597
Interest expense	**258,616**	274,746	277,411	210,585
Provision for income taxes	**453,415**	177,193	364,342	346,982
Income before cumulative effect of accounting change	**801,566**	301,871	659,319	591,025
Cumulative effect of SFAS No. 106 adoption	**–**	–	–	–
Net income	**801,566**	301,871	659,319	591,025
Income per share before cumulative effect of accounting change – diluted	**2.15**	0.81	1.75	1.58
Cumulative effect of SFAS No. 106 adoption	**–**	–	–	–
Net income per share – diluted	**2.15**	0.81	1.75	1.58
Net income per share – basic	**2.19**	0.82	1.79	1.61
OTHER RELATED DATA:				
Dividends paid:				
Common	**452,566**	416,923	381,871	345,358
per share	**1.23½**	1.13½	1.03½	0.94
Preferred	**37**	43	56	64
Average common shares outstanding – diluted	**372,952,851**	374,043,705	377,606,606	373,317,480
Average common shares outstanding – basic	**365,982,290**	367,470,850	368,799,645	367,685,810
Number of employees	**40,500**	44,700	43,300	42,200
Capital expenditures	**373,754**	377,457	334,787	341,788
Depreciation and amortization expense	**313,622**	340,490	343,809	315,267
Total assets	**8,023,421**	8,437,787	8,623,691	8,247,188
Total debt	**3,107,903**	3,447,435	3,363,828	3,401,076
Shareholders' equity	**2,216,516**	2,440,421	2,706,757	2,472,869
Pretax return on average invested capital	**27.0%**	12.6%	21.8%	22.1%
Return on average shareholders' equity before cumulative effect of accounting change	**34.4%**	11.7%	25.5%	24.6%
Book value per common share	**6.10**	6.64	7.34	6.76
Price range of common stock:				
High	**59 15/16**	44 7/8	36 5/8	28 5/8
Low	**41 1/8**	29 3/4	27 5/8	21 1/8

The 1998 results include non-recurring costs of $84.1 million pretax related to the implementation of Project Millennia, offset by the gain on the sale of the Ore-Ida frozen foodservice business, $96.6 million pretax.
The 1997 results include a pretax charge for restructuring and related costs of $647.2 million, offset by capital gains of $85.3 million from the sale of non-strategic assets in New Zealand and the U.K. The 1994 results include a pretax gain of $127.0 million relating to the divestiture of the confectionery and specialty rice businesses. The 1993 results include a pretax restructuring charge of $192.3 million. The 1992 results include a pretax gain of $221.5 million for the sale of The Hubinger Company, a pretax restructuring charge of $88.3 million and a pretax pension curtailment gain of $38.8 million.

1994	1993	1992	1991	1990	1989	1988
$7,046,738	$7,103,374	$6,581,867	$6,647,118	$6,085,687	$5,800,877	$5,244,230
4,381,745	4,530,563	4,102,816	4,063,423	3,726,613	3,550,249	3,212,580
149,243	146,491	134,948	137,592	108,542	77,694	73,995
319,442	185,838	346,050	335,014	306,979	284,661	236,559
602,944	529,943	638,295	567,999	504,451	440,230	386,014
–	(133,630)	–	–	–	–	–
602,944	396,313	638,295	567,999	504,451	440,230	386,014
1.56	1.36	1.59	1.42	1.26	1.11	0.96
–	(0.34)	–	–	–	–	–
1.56	1.02	1.59	1.42	1.26	1.11	0.96
1.59	1.04	1.65	1.48	1.32	1.14	1.01
325,887	297,009	270,512	239,212	207,387	178,340	154,418
0.86	0.78	0.70	0.62	0.54	0.46⅓	0.40⅓
71	78	86	91	113	134	155
385,778,757	390,374,298	400,267,734	400,696,424	399,980,757	398,819,408	402,816,387
378,483,701	380,728,905	386,331,811	384,983,564	383,507,801	384,981,923	383,034,155
35,700	37,700	35,500	34,100	37,300	36,200	39,000
275,052	430,713	331,143	345,334	355,317	323,325	238,265
259,809	234,935	211,786	196,138	168,523	148,104	133,348
6,381,146	6,821,321	5,931,901	4,935,382	4,487,451	4,001,807	3,605,083
2,166,703	2,613,736	1,902,483	1,226,694	1,256,607	962,321	780,330
2,338,551	2,320,996	2,367,398	2,274,863	1,886,899	1,777,238	1,593,856
22.7%	18.7%	28.8%	31.3%	31.3%	31.4%	30.0%
25.9%	22.0%	27.5%	27.3%	27.5%	26.1%	25.8%
6.26	6.08	6.21	5.84	4.96	4.61	4.16
26⅝	30⅜	32⅜	27⅜	23⅞	17⅛	17¼
20½	23½	23⅜	19⅝	16⅜	12⅞	11⅛

DIRECTORS AND OFFICERS*

H.J. Heinz Company

DIRECTORS

Anthony J. F. O'Reilly
Chairman of the Board.
Director since 1971. (3,5,6)

William R. Johnson
• President and
Chief Executive Officer.
Director since 1993. (1,3,5)

Joseph J. Bogdanovich
Vice Chairman.
Director since 1963. (6)

Nicholas F. Brady
Chairman and President,
Darby Advisors, Inc.
and Chairman, Darby
Overseas Investments, Ltd.,
Easton, Maryland.
Director from 1987 through
September 1988.
Reelected 1993. (3,4)

Candace K. Bryan
Chairman and Chief Executive
Officer, Kendle International Inc.,
Cincinnati, Ohio.
Director since 1998.

Richard M. Cyert
President Emeritus and Professor
of Economics and Management,
Carnegie Mellon University,
Pittsburgh, Pennsylvania.
Director since 1984. (2,3,4,6)

Edith E. Holiday
Attorney and Director,
Various Corporations.
Director since 1994. (3,4,6)

Samuel C. Johnson
Nonexecutive Chairman,
S. C. Johnson & Son, Inc.,
Racine, Wisconsin.
Director since 1988. (2,4)

Donald R. Keough
Chairman of the Board,
Allen & Co. Incorporated,
New York, New York.
Director since 1990. (2,3)

Lawrence J. McCabe
Senior Vice President, General
Counsel and Secretary.
Director since 1991. (1)

Paul F. Renne
Executive Vice President and
Chief Financial Officer.
Director since 1997. (1,5)

Herman J. Schmidt
Independent Businessman.
Director since 1977. (2,3,4,6)

Eleanor B. Sheldon
Social Scientist.
Director since 1979. (2,4,6)

William P. Snyder III
President, The Wilpen Group,
Inc., Pittsburgh, Pennsylvania.
Director since 1961. (2,3,4)

William C. Springer
Executive Vice President.
Director since 1993. (1)

S. Donald Wiley
Vice Chairman, H.J. Heinz
Company Foundation.
Director from 1972 through
September 1990.
Reelected 1991. (6)

David R. Williams
Executive Vice President.
Director since 1992. (1)

COMMITTEES OF THE BOARD

(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

OFFICERS

William R. Johnson
President and
Chief Executive Officer

Daniel J. O'Neill
Executive Vice President

Paul F. Renne
Executive Vice President
and Chief Financial Officer

Malcolm Ritchie
Executive Vice President

William C. Springer
Executive Vice President

Richard H. Wamhoff
Executive Vice President–Global
Manufacturing/Supply Chain
and Frozen Foods

David R. Williams
Executive Vice President

Michael J. Bertasso
Senior Vice President–Strategy,
Process and Business Development

Lawrence J. McCabe
Senior Vice President, General
Counsel and Secretary

D. Edward I. Smyth
Senior Vice President–Corporate
and Government Affairs

Rory W. Beattie
Area Vice President–Southern
Africa and India

John Crawshaw
Area Vice President–Pacific Rim

John C. Crowe
Vice President–Taxes

William C. Goode
Vice President and Chief
Administrative Officer

Edward J. McMenamin
Vice President and
Corporate Controller

Lelio G. Parducci
Vice President–Nutrition &
Technical Affairs and
Chief Scientist

Mitchell A. Ring
Vice President–Business
Development

F. Nicholas Grasberger III
Treasurer

** As of May 1, 1998.*

WORLD LOCATIONS*

H.J. Heinz Company and Subsidiaries

WORLD HEADQUARTERS

600 Grant Street, Pittsburgh, Pennsylvania.

THE AMERICAS

Heinz U.S.A. Established 1869. Pittsburgh, Pennsylvania.

Ore-Ida Foods, Inc. Acquired 1965. Boise, Idaho.

Star-Kist Foods, Inc. Acquired 1963. Newport, Kentucky.

- *Heinz Pet Products.* Established 1988. Newport, Kentucky.
- *Star-Kist Caribe, Inc.* Acquired 1963. Mayaguez, Puerto Rico.
- *Star-Kist Samoa, Inc.* Acquired 1963. Pago Pago, American Samoa.

Weight Watchers International, Inc. Acquired 1978. Woodbury, New York.

- *Cardio-Fitness Corporation.* Acquired 1985. New York, New York.
- *The Fitness Institute Ltd.* Acquired 1988. Willowdale, Ontario, Canada.

Weight Watchers Gourmet Food Company. Established 1991. Pittsburgh, Pennsylvania.

H.J. Heinz Company of Canada Ltd. Established 1909. North York, Ontario, Canada.

- *Omstead Foods Limited.* Acquired 1991. Wheatley, Ontario, Canada.
- *Shady Maple Farm Ltd.* Acquired 1989. LaGuadeloupe, Quebec, Canada.
- *Heinz Bakery Products.* Established 1992. Mississauga, Ontario, Canada.
- *Martin Pet Foods.* Acquired 1996. Elmira, Ontario, Canada.

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela.

EUROPE AND AFRICA

Heinz Europe Ltd. Established 1996. Hayes, Middlesex, England.

- *H.J. Heinz Company, Limited.* Established 1905. Hayes, Middlesex, England.
- *PLADA S.p.A. (Plasmon Dietetici Alimentari S.p.A.).* Acquired 1963. Milan, Italy.
- *AIAL S.r.l. (Arimpex Industrie Alimentari S.r.l.).* Acquired 1992. Rovereto, Italy.
- *Dega S.r.l.* Acquired 1994. Mori, Italy.
- *Fattoria Scaldasole S.p.A.* Acquired 1996. Monguzzo, Italy.
- *Mareblu S.r.l.* Acquired 1996. Milan, Italy.
- *H.J. Heinz B.V.* Acquired 1958. Elst, Gelderland, Netherlands.
- *H.J. Heinz Branch Belgium.* Established 1984. Brussels, Belgium.
- *H.J. Heinz GmbH.* Established 1970. Cologne, Germany.
- *H.J. Heinz S.A.R.L.* Established 1979. Paris, France.
- *Pioneer Food Cannery Ltd.* Acquired 1995. Tema, Ghana.
- *John West Foods Limited.* Acquired 1997. Liverpool, England.
- *Single Service Limited.* Acquired 1995. Telford, England.
- *Frank Cooper Limited.* Acquired 1997. Redditch, England.
- *Ets. Paul Paulet S.A.* Acquired 1981. Douarnenez, France.
- *IDAL (Industrias de Alimentação, Lda.) Fish Division.* Acquired 1988. Peniche, Portugal.
- *Indian Ocean Tuna Ltd.* Established 1995. Victoria, Seychelles.

**As of May 1, 1998.*

- ☐ *Heinz Iberica, S.A.* Established 1987. Madrid, Spain.
- ☐ *IDAL (Industrias de Alimentação, Lda.).* Acquired 1965. Lisbon, Portugal.
- ☐ *COPAIS Food & Beverage Company S.A.* Acquired 1990. Athens, Greece.
- ☐ *H.J. Heinz Company (Ireland) Limited.* Incorporated 1966. Dublin, Ireland.
- ☐ *H.J. Heinz European Frozen & Chilled Foods Ltd.* Established 1992. Dublin, Ireland.

H.J. Heinz Central Eastern Europe. Established 1994. Budapest, Hungary.

- ☐ *Heinz Kecskeméti Konzervgyár RT.* Acquired 1992. Kecskemet, Hungary.
- ☐ *Heinz C.I.S.* Established 1994. Moscow, Russia.
- ☐ *Heinz Georgievsk.* Acquired 1994. Oktyabraskaya, Russia.
- ☐ *Heinz Polska Sp. Z.O.O.* Established 1994. Warsaw, Poland.
- ☐ *Heinz-PMV a.s.* Acquired 1995. Zabreh, Czech Republic.
- ☐ *Pudliszki, S.A.* Acquired 1997. Pudliszki, Poland.

H.J. Heinz Southern Africa (Proprietary) Limited. Established 1995. Johannesburg, South Africa.

- ☐ *H.J. Heinz (Botswana) (Proprietary) Ltd.* Formed 1988. Gaborone, Botswana.
- ☐ *Kgalagadi Soap Industries (Pty) Ltd.* Acquired 1988. Gaborone, Botswana.
- ☐ *Refined Oil Products (Proprietary) Ltd.* Formed 1987. Gaborone, Botswana.
- ☐ *Olivine Industries (Private) Limited.* Acquired 1982. Harare, Zimbabwe.
- ☐ *Chegutu Canners (Pvt) Ltd.* Established 1992. Chegutu, Zimbabwe.
- ☐ *Heinz South Africa (Pty) Ltd.* Established 1995. Johannesburg, South Africa.
- ☐ *Pets Products (Pty) Limited.* Acquired 1997. Cape Town, South Africa.
- ☐ *Heinz Frozen Foods (Pty) Ltd.* Established 1995. Klerksdorp, South Africa.

Cairo Foods Industries SAE. Established 1992. Cairo, Egypt.

THE PACIFIC RIM AND SOUTHWEST ASIA

H.J. Heinz Pacific Rim. Established 1996. Auckland, New Zealand.

- ☐ *H.J. Heinz Company Australia Ltd.* Established 1935. Doveton, Victoria, Australia.
- ☐ *Heinz-Wattie Holdings Limited.* Acquired 1992. Auckland, New Zealand.
- ☐ *Heinz Japan Ltd.* Established 1961. Tokyo, Japan.
- ☐ *Heinz-UFE Ltd.* Established 1984. Guangzhou, People's Republic of China.
- ☐ *Seoul-Heinz Ltd.* Established 1986. Inchon, South Korea.
- ☐ *Heinz Win Chance Ltd.* Established 1987. Bangkok, Thailand.

Heinz India (Private) Limited. Acquired 1994. Mumbai, India.

Heinz: A Definition H.J. Heinz Company is a worldwide provider of processed food products and nutritional services. Heinz's varieties now number more than 5,000 and its business extends to loyal consumers in more than 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers, which in the United States are joined by powerful names, such as Ore-Ida, The Budget Gourmet, Earth's Best, StarKist, 9-Lives, Ken-L Ration and many others. Overseas, Heinz's best-known brands are Orlando, Wattie's, Olivine, Farley's, Plasmon and Guloso. Heinz provides employment for approximately 40,500 people full-time, plus thousands of others on a part-time basis and during seasonal peaks.

Annual Meeting The annual meeting of the company's shareholders will be held at 2:00 p.m. on Tuesday, September 8, 1998 in Pittsburgh at Heinz Hall for the Performing Arts.

Copies Of This Publication Additional copies of this publication are available from the Corporate Affairs Department at the Heinz World Headquarters address or by calling (412) 456-6000.

Form 10-K The company submits an annual report to the Securities and Exchange Commission on Form 10-K.

Copies of this Form 10-K are available from the Corporate Affairs Department at Heinz World Headquarters.

Investor Information Securities analysts and investors seeking additional information about the company should contact Paul F. Renne, Executive Vice President and Chief Financial Officer, at (412) 456-5716.

Equal Employment Opportunity H.J. Heinz Company hires, trains, promotes, compensates and makes all other employment decisions without regard to race, color, sex, age, religion, national origin, disability or other protected conditions or characteristics. It has affirmative action programs in place at all domestic locations to ensure equal opportunity for every employee.

Copies of the H.J. Heinz Company Equal Opportunity Review are available from the Corporate Affairs Department at Heinz World Headquarters.

Political Contributions H.J. Heinz Company's guidelines on political contributions are set forth in Exhibit 99 of the company's Form 10-K.

Copies of the exhibit are available from the Corporate Affairs Department at Heinz World Headquarters.

Environmental Policy H.J. Heinz Company is committed to protecting the environment. Each affiliate has established programs to review its environmental impact, to safeguard the environment and to train employees.

Copies of the H.J. Heinz Company Environmental Report will be available from the Corporate Affairs Department at Heinz World Headquarters after January 1, 1999.

Corporate Data *Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts or to arrange for the direct deposit of dividends):* ChaseMellon Shareholder Services, L.L.C., 85 Challenger Road, Overpeck Centre, Ridgefield Park, New Jersey 07660. (800) 253-3399 (within U.S.A.) or (201) 329-8660.
Auditors: PricewaterhouseCoopers LLP, 600 Grant Street, Pittsburgh, Pennsylvania 15219
Stock Listing: The New York Stock Exchange
Ticker Symbols: Common–HNZ
Third Cumulative Preferred–HNZ PR
Pacific Exchange, Inc.
Ticker Symbol: Common–HNZ

Dividend Reinvestment The company offers an Automatic Dividend Reinvestment Service for Shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan. For a nominal charge to the shareholder, shares can be deposited for safekeeping.

For additional information regarding the dividend reinvestment plan, contact: Mellon Bank, N.A., P.O. Box 3338, South Hackensack, NJ 07606-1938. (800) 253-3399 (within U.S.A.) or (201) 329-8660.

TDD Services ChaseMellon Shareholder Services can be accessed through telecommunications devices for the hearing impaired by dialing (201) 329-8354.

Heinz on the Internet Financial results, news and information about Heinz and its affiliates can be found on Heinz's home page at http://www.heinz.com.

Company News On-Call Heinz news releases, including earnings announcements, are available by fax 24 hours a day through Company News On-Call at (800) 758-5804. The Heinz extension is 575757.

Heinz
H.J. Heinz Company
P.O. Box 57
Pittsburgh, Pennsylvania 15230-0057
(412) 456-5700

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VIDEO-ON
VOLUME


Game Bites
Bites
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Special Shareholder Offer...Catch Yours Today! Just $2.49

Charlie's at it again! He's trying to convince Heinz shareholders that he is indeed a tuna with good taste. So, he's putting his best fin forward as a huggable, squeezable, limited-edition "Charlie® Baby" beanbag toy.

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SEND TO: "Charlie® Baby" Beanbag Offer, P.O. Box 8863, Young America, MN 55551-8863

Please ship to me _____ "Charlie® Baby" Beanbag Toys at $2.49 each (includes shipping, tax and handling). All monies payable in U.S. dollars. Make checks payable to: "Charlie Tuna FSI Offer." Limit 6 toys per shareholder. All orders must be accompanied by a copy of this order form.

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